Manzanares Overview Screen | 5/30/2008 | 1:49:09 PM

(B)(4)

Enterprise Products / Chaco Plant
Gas & Liquid Flow Diagram

(B)(4)

GAS PLANT ALLOCATION

Gas Plant Name: *CHACO*

Date : Monday, November 05, 2007

OGOR Gas Plant#: 02 30 045 3029

3160 Gas Plant #: 3029

Operator: EL PASO NATURAL GAS COMPANY

Operator Number: G7901

Press Base Corr: 14.730 PSIA

Location: NM, SAN JUAN CTY SW-SW-33-24S-37E

Location Method: 00

Comments: CHANGED FMP SEQUENCE NUMBER 04/30/90

GPOR DATA

Field Volume:	1,703	MCF	Bypass Volume:	0	MCF
Actual Residue:	1,402	MCF	Fuel Volume:	350	MCF
VENT, FLR, GN,LS:	100	MCF	Shrinkage Volume:	40	MCF
Total GPM at PI:	0.84416		Actual Ngl's:	1,198	gallons
			BTU of Residue:	1,000	
Mole % Methane:	71.623	%			
Mole % H2S:	0.000	%	Actual Sulfur:	0	Long Tons
Mole % CO2:	0.000	%	Actual CO2:	0	MCF

3160/OGOR Data

Sales Month:	September 1994		Fed/Indian Pct:	100.000	%
Lease/Agree No:	L 6090001260		Lease Name:		
Lease Trans Vol:	39,519	MCF	Lse/Agr Operator:		
Lease Sales Vol:	0	MCF	Residue Return:	0	MCF

2014 Data

2014 Unpr (04):	3,144	MCF

GAR Data

Mol % Methane:	71.623	%
Mol % H2S:	0.000	%
Mol % CO2:	0.000	%
GPM at Lease:	0.84416	
BTU at Lease:	1,000	

Calculated Data

Adj Gas Transfer:	36,375	MCF	Theor Plant Res:	1,213
RES(03) Allocat:	29,946	MCF		
NGL(07) Allocat:	25,589	gallons	NGL Alloc Fctr:	0.70346
Residue Factor:	1.1865		RES Alloc Fctr:	0.82325
			CO2 Alloc Fctr:	0.00000
CO2 Alloc to Lse:	0	MCF	Sulfur Alloc Fctr:	0.00000
Sulfur Alloc to Lse:	0	Long Tons		

M-9
1826

Report Date: 10/14/05
Report Time: 07:55:16
Contract: 1767 SUPER COMBO GPAS
Prod Area: SAN JUAN COMPLEX
Location: GCHACO6A CHACO 6A LATERAL
Operator: MERRION OIL & GAS CORP.
Package:
RIC Code: NONE

ENTERPRISE FIELD SERVICES, LLC
Plant Settlement Meter Statement

Company: 010281 MERRION OIL & GAS CORP.

Meter: 98440 MONROE #1

Report No: SJ1PLDTL -01
Page No: 72
Business Month: Sep, 2005
Production Month: Sep, 2005

	System Totals		Meter Totals				Contract/Owner Allocation (1.00000000)				Settlement				
Liquid (gallons)	Total Theo	Total Actual	GPM	Theo Gallons	Contract Recovery %	Settle Volume	Settle Shrink MMBtu	Settle Volume Allocated	Net % Share	Settle Volume	Taken In-Kind	Product Sold	Price	Settle Amount
BLANCO C2 -ETHANE	58160400	31747209	.6463	1659		491	33	491	61.00	299	299	0	.0000	.00
BLANCO C3 -PROPANE	26027535	14463145	.0035	9		3	0	3	61.00	2	2	0	.0000	.00
CHACO C2 -ETHANE	58160400	24770584	.6151	1659		1105	73	1105	75.00	829	829	0	.0000	.00
CHACO C3 -PROPANE	26027535	12044369	.0033	9		6	1	6	75.00	5	5	0	.0000	.00
CHACO C4I-ISO-BUTANE	5632131	2554380	.0007	2		2	0	2	75.00	1	1	0	.0000	.00
Total Liquids							107				1136	0		.00

Gas Settlement	Meter Total	Wellhead Allocated	Contract/Owner Allocation (1.00000000) Inlet	Residue	Settle % Share	Net Settle Residue	Taken In-Kind	Settlement Product Sold	Price	Settle Amount
Wellhead Mcf @ 14.730	2697	2697								
MMBtu DRY	2685	2685	2555	2402	100.00	2402				
Keep Whole Adjustment Volume						0				
Total Gas	2402	2402				0		0	.0000	.00

Fees	Volume	Rate	Amount
ELECTRICAL COMPRESSIOKWH			
GATHERING MMBTU			
NEW MEXICO PROCESSORSMMBTU			
Total Fees			
Net			

(B)(4)

*This month volumes processed through the Chaco Plant are 75% of the Field Billable volume

RECEIVED
JUN 19 2008
INDIAN OIL & GAS CAM

Report Date: 11/13/03
Report Time: 15:56:37
Contract: 1767 SUPER COMBO GPAS
Prod Area: SAN JUAN COMPLEX.
Location: GCHALN30 CHACO LINDRYTH CROSSOVER
Operator: MERRION OIL & GAS CORP.
Package:
RIC Code: NONE

GULFTERRA FIELD SERVICES, L.L.C.
Plant Settlement Meter Statement

Company: 010281 MERRION OIL & GAS CORP.

Meter: 97133 MERRION N DUFERS PNT CPD

Report No: SJIPLDTL -01
Page No: 81
Business Month: Oct, 2003
Production Month: Oct, 2003

	System Totals		Meter Totals				Contract/Owner Allocation (1.00000000)							Settlement
Liquid (gallons)	Total Theo	Total Actual	GPM	Theo Gallons	Contract Recovery %	Settle Volume	Settle Shrink MMBtu	Settle Volume Allocated	Net % Share	Settle Volume	Taken In-Kind	Product Sold	Price	Settle Amount
BLANCO C2 -ETHANE	62663106	31632151	2.8180	18616		3685	245	3685	61.00	2248	2248	0	.0000	.00
BLANCO C3 -PROPANE	27725961	14369197	1.6120	10649		2400	220	2400	61.00	1464	1464	0	.0000	.00
BLANCO C4I-ISO-BUTANE	5983715	3014672	.2607	1722		356	35	356	61.00	217	217	0	.0000	.00
BLANCO C4N-NORMAL BUTAN	8495495	4328156	.5652	3734		826	86	826	61.00	504	504	0	.0000	.00
BLANCO C5+-PENTANE PLUS	13686064	6364599	.6645	4390		614	71	614	61.00	375	375	0	.0000	.00
CHACO C2 -ETHANE	62663106	27682579	2.6882	18616		13452	893	13452	75.00	10089	10089	0	.0000	.00
CHACO C3 -PROPANE	27725961	13214241	1.5378	10649		8179	749	8179	75.00	6134	6134	0	.0000	.00
CHACO C4I-ISO-BUTANE	5983715	2791272	.2487	1722		1302	130	1302	75.00	977	977	0	.0000	.00
CHACO C4N-NORMAL BUTAN	8495495	3988957	.5392	3734		2817	292	2817	75.00	2112	2112	0	.0000	.00
CHACO C5+-PENTANE PLUS	13686064	5632901	.6339	4390		2895	317	2895	75.00	2171	2171	0	.0000	.00
Total Liquids							3038				26291	0		.00

Gas Settlement	Meter Total	Wellhead Allocated	Inlet	Residue	Contract/Owner Allocation (1.00000000) Settle % Share	Net Settle Residue	Taken In-Kind	Product Sold	Price	Settle Amount
Wellhead Mcf @ 14.730	6925	6925								
MMBtu DRY	8807	8807	8409	5210	100.00	5210				
Keep Whole Adjustment Volume						0				
Total Gas						5210	5210	0	.0000	.00

Fees	Volume	Rate	Amount
ELECTRICAL COMPRESSIOKWH			
GATHERING	MMBTU		
NEW MEXICO PROCESSORSMMBTU			
Total Fees			
Net Settlement			

(B)(4)

*This month volumes processed through the Chaco Plant are 85% of the Field Billable volume

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

DEVON ENERGY CORPORATION, Plaintiff, v. GALE A. NORTON, Secretary of the Interior, Defendant.	)))))))))))	Civil Action No. 04-CV-0821 (GK)

MEMORANDUM OPINION

Plaintiff Devon Energy Corporation ("Devon"), a natural gas producer, seeks review of a decision by the Department of the Interior ("Interior").[1] Interior held that Devon could not deduct certain costs when it calculated the royalties owed to the government pursuant to its lease to extract natural gas from federally-owned land. Devon principally argues that Interior's decision violates the notice and comment provisions of the Administrative Procedure Act ("APA"), 5 U.S.C. § 553, because it reinterprets Interior regulations in a manner fundamentally different from the agency's prior interpretation of the same regulations. The following analysis establishes that Interior did not reinterpret a prior authoritative interpretation of its regulations in violation of the APA, and hence was not required to conform to the APA's notice and comment provisions.

BACKGROUND

[1]Judge Gladys Kessler referred the pending motions for summary judgment to this judge on December 22, 2006.

A. Statutory and Regulatory Background[2]

Beginning in the 1980s, technological innovations made possible the large-scale extraction of a natural gas variety known as "coalbed methane." Coalbed methane is gas that is trapped in underground coal seams and held in place by hydraulic pressure. To extract the gas, a producer like Devon lifts the pressure on the coalbed, causing the coalbed methane to escape. The gas is then captured and gathered to a central delivery point ("CDP"); removed of any excess carbon dioxide; and dehydrated and pressurized to render it suitable for transport. Only by completing this process does coalbed methane become marketable for use.

The federal government owns land in the Powder River Basin of Wyoming, which is rich in natural gas. It leases rights to extract the gas in exchange for a statutorily fixed percentage of the proceeds.[3] Interior, through its subagency the Minerals Management Service (MMS), promulgates rules for the regulation of the relationship between the government and its natural gas lessees, and issues and administers the leases in accordance with those rules.

In 1988 MMS "amended and clarified" the rules "governing valuation of gas for royalty computation purposes." Revision of Gas Royalty Valuation Regulations and Related Topics, 53 Fed. Reg. 1230 (Jan. 15, 1988). These new rules specified that the "value of production" referred to in 30 U.S.C. § 226(b)(1)(A) must be no less than "the gross proceeds accruing to the lessee for

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[2]Much of the following statutory and regulatory background has been taken, without attribution for ease of readability, from then-Judge Roberts' opinion in *Amoco Production Co. v. Watson*, 410 F.3d 722 (D.C. Cir. 2005), and the Supreme Court's opinion in *Amoco Production Co. v. Southern Ute Indian Tribe*, 526 U.S. 865 (1999).

[3]The Mineral Leasing Act requires producer-lessees to pay the government-lessor "a royalty at a rate of not less than 12.5 percent in amount or value of the production removed or sold from the lease." 30 U.S.C. § 226(b)(1)(a).

lease production," minus certain allowable deductions. 30 C.F.R. § 206.152(h) (1988). A longstanding interpretation of the Mineral Leasing Act (MLA) obligates lessees to put the gas they extract in "marketable condition at no cost to" the federal lessor, thereby precluding deduction of such costs. *Id.* § 206.152(i); *see California Co. v. Udall*, 296 F.2d 384, 387-88 (D.C. Cir. 1961) (upholding marketable condition requirement).

Lease products are considered in marketable condition if they "are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151. If a lessee sells "unmarketable" gas at a lower cost, the gross proceeds for purposes of royalty calculation must be "increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. *Id.* § 206.152(i). To take a simple example, if it costs a producer $20 to put gas in marketable condition by dehydrating and compressing it, and the producer sells the dehydrated and pressurized gas for $100, "gross proceeds" for purposes of royalty calculations is $100, regardless of whether the producer dehydrates and pressurizes and then sells the gas for $100, or instead sells the gas for $80 to a purchaser who dehydrates and pressurizes it.

Importantly, the regulations allow lessees to deduct from gross proceeds costs directly related to transporting the gas from the wellhead for sale at markets remote from the leasehold. *See id.* § 206.157(a)-(b).

B. Factual Background

The facts of this case are undisputed.

Devon is a producer of coalbed methane and a lessee of the federal government in

Wyoming's Powder River Basin. Devon gathers the gas from various wells in the Basin to CDPs, where the gas is measured to calculate the amount of royalty owed to the federal lessor. Pl.'s Stmt of Material Facts as to Which There Is No Genuine Issue ("Pl.'s Stmt") ¶¶ 2-4 (May 4, 2005) [dkt #24].

After being gathered to the CDP, the coalbed methane leaves the CDP through a pipeline to one of Devon's chemical plants, some 126 miles away. There Devon removes the excess carbon dioxide thereby rendering the gas into marketable condition for sale to third parties. To travel the pipeline, however, the gas also must be compressed and dehydrated. As noted above, Interior regulations permit Devon to deduct from their gross proceeds the costs relating to the transport of the gas to the chemical plant. However, the marketable condition rule prohibits deductions of costs necessary to render the gas saleable "under a sales contract typical for the field or area," 30 C.F.R. § 206.151. The regulations do not expressly state whether the costs of dehydrating and compressing coalbed methane are (a) deductible transportation costs or (b) non-deductible costs for rendering the gas into marketable condition. *See* Pl.'s Stmt ¶¶ 5-10.

In November 1995 Interior convened the Royalty Policy Board to consider how the marketable condition rule should be interpreted with regard to these compression and dehydration costs. In 1995-96, the guidance generated from this meeting was distributed by way of two valuation and reporting Guidelines (the "Guidelines") published on Interior's website, as well as a Dear Operator Letter (the "Letter") sent to interested parties. *See id.* ¶¶ 12-21.

The parties dispute the meaning of the Board's specific guidance in the Guidelines and Letter. According to Devon, the Board allowed the producer to deduct the costs of dehydration and compression, provided they were incurred after the gas reached the CDP and were necessary

for transportation. *See* Pl.'s Stmt of Points and Authorities in Support of Pl.'s Mot. for Summ. J. ("Pl.'s Mem.), at 9-10 (May 4, 2005) [dkt # 24]; Def.'s Mem. in Opp. to Pl.'s Mot. for Summ. J. ("Def.'s Mem."), at 9-10 (Jun. 17, 2005) [dkt #28]. According to Interior, the Board's conclusions were ambiguous and, if interpreted as Devon viewed them, erroneous. *See id.*; Def.'s Rep. to Pl.'s Opp. to Def.'s Cross-Mot. for Summ. J. ("Def.'s Rep."), at 7-10 (Aug. 17, 2005) [dkt #33]. Moreover, declares Interior, the Board was without authority to issue a binding, authoritative interpretation of the marketable condition rule on behalf of the agency. *See id.* at 16.

In 2002, Devon requested that MMS confirm that deducting the post-CDP dehydration and compression costs from the royalty calculation, as set forth in the Guidelines and Letter, complied with Interior's marketable condition regulation. Pl.'s Stmt ¶ 26. In 2003, an Acting Assistant Secretary of the Interior ruled in a final agency decision that the Royalty Policy Board's interpretation of the regulations was either ambiguous or in error, and that Devon could not deduct the post-CDP dehydration and compression costs as transportation costs. *Id.* ¶ 27; Compl., Ex. B, at 25 (Agency Decision of Oct. 9, 2003) [dkt #1]. This litigation followed.

DISCUSSION

I. The Legal Standard

Summary judgment is granted if there is no genuine issue as to any material fact and if the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The standard of judicial review of Interior's interpretation of its own regulations implementing the MLA, the case here, is well known:

> Although [the courts] will not allow an agency to rewrite

> regulations under the guise of interpreting them, [they] nevertheless owe substantial deference to an agency's interpretation of its own regulations, giving that interpretation controlling weight unless it is plainly erroneous or inconsistent with the regulation. Such deference is particularly appropriate in the context of a complex and highly technical regulatory program [such as the MLA], in which the identification and classification of relevant criteria necessarily require significant expertise and entail the exercise of judgment grounded in policy concerns.

Amoco Production Co. v. Watson, 410 F.3d 722, 728-29 (D.C. Cir. 2005) (original alterations, quotation marks, and citations omitted).

II. APA § 553 Claim

Section 553 of the APA requires that a formal administrative rule be implemented through notice and comment procedures. *See Independent Petroleum Assoc. of America v. Babbitt*, 92 F.3d 1248, 1256 (D.C. Cir. 1996). The D.C. Circuit has also ruled, however, that "[o]nce an agency gives its regulation an interpretation, it can only change that interpretation as it would formally modify the regulation itself: through the process of notice and comment rulemaking." *Paralyzed Veterans of America v. D.C. Arena*, 117 F.3d 579, 586 (D.C. Cir. 1997). The question here is whether the Guidelines and Letter constitute an "authoritative interpretation," *id.*, of the marketable condition rule, such that Interior's repudiation in the decision presently under review must undergo notice and comment procedures. All parties agree that the Guidelines and Letter, standing alone, do not constitute an authoritative interpretation of a rule sufficient to bind the agency. *See Independent Petroleum*, 92 F.3d at 1256-57; Pl.'s Rep. in Supp. of Its Mot. for Summ. J. & Its Opp. to Def.'s Cross-Mot. ("Pl.'s Rep."), at 6 & n.4 (Jul. 13, 2005) [dkt #30]. Rather, Devon argues that these guidances plus subsequent actions by Interior comporting with their interpretation is sufficient to bind the agency as an authoritative

interpretation. *Id.*

The parties present two diverging paradigms for understanding the nature of Interior's actions. From Devon's perspective, the 1995-96 Guidelines and Letter uttered by the Royalty Policy Board constitute a new and not unreasonable interpretation of the marketable condition rule that has been in effect for over 60 years. The new interpretation of the rule was necessary to address the technological innovations in the 1980s making profitable the collection of coalbed methane. Thus, the Board was called upon to decide how the marketable condition rule would apply to this relatively recent practice of collecting and refining coalbed methane. In other words, Devon argues, the Guidelines and Letter are a new *application* of the marketable condition rule, which are binding on Interior.

Even if Devon's paradigm were correct, that does not mean it wins. As Devon acknowledges, the policy statements or informal interpretations in the Guidelines and Letter are not binding on Interior, *unless Interior affirmatively adopted them*, by way of complying with them in a longstanding practice. *See Alaska Professional Hunters Ass'n v. FAA*, 177 F.3d 1030, 1035 (D.C. Cir. 1999).

Interior's paradigm is quite different. Interior views the 1995-96 Guidelines and Letter as an anomaly or error in a long line of Interior policy statements and interpretations that have consistently interpreted, for decades, the marketable condition rule in accordance the view taken by the 2003 decision rejecting Devon's interpretation. Interior de-emphasizes the significance of the newness of coalbed methane collection, noting instead that the original marketable condition rule applies to *all* natural gas. It cites a long line of adjudications and federal court decisions applying the marketable condition rule consistently with the 2003 decision, regardless of whether

the costs of bringing the gas to a marketable condition were incurred before the gas reaches the CDP, at the CDP, or after it has passed through the CDP. According to Interior, the Guidelines and Letter (or Devon's interpretation of them) are an anomaly that sticks out like a sore thumb.

Moreover, Interior disputes that it ever authoritatively adopted the interpretation stated in the Guidelines and Letter. Although it acknowledges that since 1995-96 its employees may have approved deductions for coalbed methane like the ones Devon wishes to make, it also notes at least one instance since that time when it did not allow such a deduction. Moreover, Interior cites numerous decisions where, with respect to natural gas, it uniformly denied a transportation deduction based upon the geographic location (*i.e.*, downstream of the CDP) of the natural gas.

Interior has the better of the argument.

In favor of its paradigm, Devon relies principally on two cases, neither of which is controlling here. The first is *Shell Offshore Inc. v. Babbitt*, 238 F.3d 622 (5th Cir. 2001), in which the Fifth Circuit, purportedly relying on the D.C. Circuit's holding in *Alaska Professional*, held that Interior could not require an additional certification from FERC as a prerequisite to receiving a particular transportation deduction. The Fifth Circuit held that Interior's "undeniably . . . long established and consistently followed practice" of not requiring an additional certification could not be altered without notice and comment. *Id.* at 630. Next Devon relies upon a district court case, *Torch Operating Co. v. Babbitt*, 172 F. Supp. 2d 113 (D.D.C. 2001), holding, on virtually the same facts as *Shell Offshore*, that Interior had failed to comply with APA notice and comment procedures before requiring the certification overlay for the approval of transportation deductions. *Id.* at 128.

These two cases facially appear to have analogous facts to the decision now under review.

However, in both *Shell Offshore* and *Torch* there was no question that Interior had made a change in policy and departed significantly from a consistent, prior practice of not requiring the certification. *See Shell Offshore*, 238 F.3d at 630 (prior interpretation was "undeniably" a long established and consistently followed practice); *Torch*, 172 F. Supp. 2d at 125-26 (same). By contrast, in the case *sub judice*, there is considerable doubt whether Devon's preferred interpretation of the marketable condition rule is consistent with Interior's longstanding position that the rule does not permit deduction of costs based upon the geographic location of where the costs were incurred (here, upon leaving the CDP). *See Amoco*, 410 F.3d at 729 (upholding Interior's position in this regard). That is to say, it is not all clear that the 2003 decision is a departure from a longstanding practice of Interior. This alone suffices to distinguish the situation here from the cases relied upon by Devon, neither of which is controlling here.

Two cases that are controlling, on the other hand, address precisely the prerequisites necessary for guidances such as the Guidelines and Letter to become a definitive interpretation, binding on the agency and alterable only by way of notice and comment. In both cases, the D.C. Circuit held that where the agency's prior interpretation of a regulation—alleged to be invulnerable to change absent notice and comment—is either ambiguous (that is, not clearly a departure from the subsequent, definitive interpretation) or a mere policy statement, it is not binding on the agency, and the agency may render later decisions arguably inconsistent with the policy statement or ambiguous interpretation. Here, the Guidelines and Letter constitute a policy statement of enforcement, not an interpretation of the marketable condition rule; and even if considered such an interpretation, the interpretation is ambiguous, and hence Interior's 2003 decision rejecting Devon's deductions is not inconsistent with the marketable condition rule.

In the first case, *Hudson v. FAA*, 192 F.3d 1031 (D.C. Cir. 1999), the D.C. Circuit held that a 1989 advisory circular issued by the FAA was a policy statement rather than an interpretation of an FAA regulation and therefore not subject to the administrative law principle that a prior authoritative interpretation of a regulation can only be changed by notice and comment rulemaking. *Id.* at 1036 (*Alaska Professional*, 177 F.3d at 1035, and *Paralyzed Veterans*, 117 F.3d at 586, distinguished). The FAA's 1989 advisory circular called for actual demonstrations of an aircraft's safety but warned that these were "not the only means[] of compliance" with FAA's regulatory requirements. *Id.* at 1033 (quoting the circular). The court held that abandoning the demonstration requirement did not require notice and comment.

Likewise, the Guidelines and Letter (allegedly) allow for the deductions Devon seeks from its royalty payments, but they also make clear that dehydration and compression costs that serve both transportation and marketable condition costs "should be referred to [MMS] to determine the appropriate allocation." Compl., Ex. G, Guidelines Memorandum, at 2 (Dec. 8, 1995); *id.*, Ex. H, Dear Operator Letter, at 3 (Apr. 22, 1996) (same); *see also id.*, Ex. F, Guidelines Memorandum, at 2 (Dec. 7, 1995) (confirming that lessee has burden of proving that dehydration and compression costs were related to transportation). Nothing in the Guidelines or Letter purports to reinterpret definitively the marketable condition rule with respect to coalbed methane. Rather, the guidance was issued at the request of several coalbed methane producers in San Juan, Arizona, because of confusion over their allowable costs. At that time, perhaps, MMS had a policy of allowing dehydration and compression costs that occurred post-CDP; but that does not mean Interior's decision to disallow the costs now is invalid: That decision "is not a different interpretation of the regulation, just an application of the regulation to

a changed situation which calls for a different policy." *Hudson*, 192 F.3d at 1036.

Second, in *Darrell Andrews Trucking v. FMCSA*, 296 F.3d 1120 (D.C. Cir. 2002), the court of appeals held that a plaintiff making Devon's claim "must show that the 'agency has given its regulation a definitive interpretation, and later significantly revise[d] that interpretation.'" *Id.* at 1125 (quoting *Alaska Professional*, 177 F.3d at 1034). The court held that where the agency has issued ambiguous guidances concerning its position on a regulation, as well as a clear decision that adhered to the agency's most recent understanding of the regulation, the ambiguous guidances did not constitute a binding "definitive interpretation." *See id.* at 1127-28. Likewise, here the Guidelines and Letter are arguably ambiguous (though Devon contends they are not). But even if the guidances are construed in favor of Devon's interpretation, a formal adjudication by Interior repudiates that view, *see J-W Operating Co.*, 159 IBLA 1, 12 (2003) (noting that "it has been held repeatedly that the [the costs for] dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible"), and Interior cites at least one instance where Devon's position on calculating coalbed methane royalties was rejected by the agency, *see* Def.'s Rep., Ex. A. In light of this clear conflict, the balancing of which favors Interior's interpretation of the regulation, to paraphrase the D.C. Circuit in *Darrell Andrews*, "in the midst of the period in which [Interior] issued the ambiguous [Guidelines and Letter] relied upon by [Devon], it issued a clear decision that confirms the interpretation applied by the agency in this case. [Devon] is therefore unable to show that the decision below represents a substantial change in the agency's construction of" the marketable condition rule and cannot sustain a challenge under *Alaska Professional*. *Darrell Andrews*, 296 F.3d at 1128.

Finally, a word on *Alaska Professional*, upon which Devon relies heavily. In that case, the D.C. Circuit ruled that an agency violates § 553 when it affirmatively adopts an interpretation, by way of complying with that interpretation through longstanding practice, and then repudiates that interpretation without notice and comment. 177 F.3d at 1033-34 (relying on *Paralyzed Veterans*, 117 F.3d at 586). However, the court was careful to note that "when [an unauthoritative body] gives an interpretation of a regulation or provides advice to a regulated party, this will not necessarily constitute an authoritative administrative position, particularly if the interpretation or advice contradicts the view of the agency as a whole," and hence a subsequent rejection by the agency of that position will not violate § 553. *Id.* at 1035. Here, the views of the Royalty Policy Board are not authoritative on behalf of Interior. Devon concedes as much by acknowledging that absent some sort of longstanding, consistent adherence to the Guidelines and Letter, it cannot sustain its cause based on the Board's guidances. *See* Pl.'s Rep., at 5-6 & n.4; *Amoco*, 410 F.3d at 732 (holding that MMS guidance letters are not binding on the agency, and citing *Independent Petroleum*, 92 F.3d at 1257). Also, as the *Hudson* case made clear, *Alaska Professional* was a unique situation where the agency had adhered to a particular interpretation of the regulation for some thirty years, issuing formal adjudications that were consistent with and adopted that interpretation, before repudiating it. *See Hudson*, 192 F.3d at 1036; *Ass'n of American Railroads v. DOT*, 198 F.3d 944, 950 (D.C. Cir. 1999) (noting *Alaska Professional* relied on "administrative common law" to substantiate the original interpretation). Finally, *Alaska Professional*'s holding has been further narrowed on the ground that it applies only where a turnabout in interpretation upsets substantial financial expectations based upon the original interpretation. *Id.*

III. APA § 706 Claim

Devon also claims that disallowing the post-CDP deductions for dehydration and compression costs is an unreasonable reading of the marketable condition regulation, and hence "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law," 5 U.S.C. § 706. However, the judicial standard of reviewing with deference an agency's interpretation of its own regulations prevents overturning it pursuant to APA § 706. *See Auer v. Robbins*, 519 U.S. 452, 461-463 (1997); *Amoco*, 410 F.3d at 728-29; *see also Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-845 (1984).

Devon argues that Interior's interpretation of "marketable condition," that is, gas conditioned for the specific market into which it is actually sold, is contrary to the plain language of the regulation which defines marketable condition as gas conditioned to such an extent that it "will be accepted by a purchaser under a sales contract typical for the field or area," 30 C.F.R. § 206.151. However, this argument is foreclosed by *Amoco*, which held, in rejecting a substantially similar argument, that the regulation "does not contain a geographic limit." *Amoco*, 410 F.3d at 729. Devon also argues, much like the plaintiff in *Amoco*, that Interior departed from agency precedent and original intent in issuing the 2003 decision prohibiting deduction of costs that were incurred past the geographical boundary of an off-lease central accumulation point. That argument also is foreclosed by the *Amoco* decision. *Id.* at 730. Finally, Devon argues, half-heartedly, that it alone is subject to the (allegedly) grievous 2003 Interior decision, and hence is being treated unfairly in comparison with other similarly situated gas producers. The argument is without merit, and Devon acknowledges that Interior has already begun to apply the 2003 decision to other gas producers. *See* Pl.'s Praecipe (Oct. 7, 2005) [dkt #40].

CONCLUSION

For the foregoing reasons, an accompanying order will deny plaintiff's motion for summary judgment and grant Interior's cross-motion for summary judgment.

/s/

Louis F. Oberdorfer
UNITED STATES DISTRICT JUDGE

Dated: August 23, 2007

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

TAKE PRIDE IN AMERICA

MAR 19 2004

CERTIFIED MAIL –
RETURN RECEIPT REQUESTED

Mr. Gregg Henson
Assistant Controller
Devon Energy Corp.
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Ms. Deborah Bahn Haglund
Haglund Law Firm
102 So. Broad St., Suite C
Cedar Hill, Texas 75104

Re: Request for Reconsideration or Clarification of Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming, dated October 9, 2003

Final Order to Perform Restructured Accounting and Pay Additional Royalties

Dear Mr. Henson and Ms. Haglund:

By letter from Ms. Haglund as counsel for Devon Energy Corp. (Devon) dated December 8, 2003, Devon requested "reconsideration and/or clarification" of the "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming," dated October 9, 2003, (the "October 9 Determination"). This letter responds to that request ("the December 8 Request"), and also includes a final order to Devon to perform a restructured accounting and pay additional royalties due, as set forth more fully below. We will address these different components of the December 8 Request in the same order as they are raised. The October 9 Determination is incorporated herein by reference for all purposes.

RESPONSE TO REQUEST FOR RECONSIDERATION OR CLARIFICATION

I. Specific Ordering Language

The December 8 Request first observes that the October 9 Determination did not contain express mandatory or ordering language. We acknowledge that such language was not included in the October 9 Determination. Specific ordering language is included in this response below.

Devon

II. *"Bundled Volumetric Fuel Deductions" and "Bundled Arm's-Length Transportation Rate"*

Second, the December 8 Request (at p. 2) states that Devon "historically has not paid royalty on the bundled volumetric fuel deductions made by Bitter Creek and Thunder Creek, since it considers the entirety of this fuel to be part of its transportation cost." The original letter requesting the valuation determination, dated January 11, 2002, described the arrangements with Thunder Creek and Bitter Creek as follows:

(B)(4)

(B)(4)

* * *

(B)(4)

January 11, 2002 request letter, p. 3. (B)(4) percent.

(B)(4)

The January 11, 2002 request letter then specifically states, with respect to the Thunder Creek low-pressure systems (at p. 4):

(B)(4)

Attachment B sets forth a summary of calculations of rates based on the actual costs associated with capital investment, operating, and

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> maintenance costs, with capital and depreciation calculated in accordance with MMS guidelines. Supporting information is provided on Attachment B-1. (Emphasis added.)

With respect to the Thunder Creek high-pressure system, the January 11, 2002 request letter (at p. 4) similarly states:

(B)(4)

> Attachment B sets forth a summary of calculations of rates based on the actual costs associated with capital investment, operating, and maintenance costs, with capital and depreciation calculated in accordance with MMS guidelines. Supporting information is provided on Attachment B-1.

With respect to the Bitter Creek low-pressure system, the January 11, 2002 request letter states (at p. 4):

(B)(4)

(B)(7)(e)

3

(B)(4)
(B)(7)(e)

system, because Devon [redacted] and can require this information from [redacted] (B)(4) is unwilling to voluntarily disclose separate cost information to Devon for the [redacted] low-pressure system in the (B)(4) [redacted] Devon should confer with MMS to agree on an acceptable allocation between deductible and non-deductible amounts.

For the high-pressure system, the fuel costs are principally for the (B)(4) [redacted] (B)(4) [redacted] plant. The October 9 Determination already concluded that under the [redacted]

(B)(4)

Devon's description of the [redacted] request letter, as quoted above, stated that (B)(4) [redacted]

(B)(4)

The December 8 Request (at p. 2) also states that (B)(4) [redacted]

(B)(4)

(B)(4) [redacted] Devon's understanding is that part of

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[2] It is not necessary to address this issue in the context of the (B)(4) [redacted] systems and the (B)(4) [redacted] system because none of the compression costs for those systems are deductible for the reasons explained above.

(B)(4) and some covers other functions. As explained above, Devon may not deduct the costs of the screw compressors and the reciprocating compressors and the dehydrators. To the extent the "bundled arm's-length transportation rate" includes costs allocable to the compressors and the dehydrators, Devon may not deduct that portion of the transportation rate. To the extent the amounts paid in cash are not for compression or dehydration, Devon may deduct those amounts as transportation costs, for the reasons explained in the October 9 Determination. Because it appears that the (B)(4) consist of both deductible and non-deductible elements, Devon should consult with MMS to determine an acceptable allocation if it is unable to obtain further information from (B)(4)

III. Reconsideration in View of Asserted "Facts"

Third, the December 8 Request asks that the Department "reexamine" the October 9 Determination in light of what your letter styles as factual arguments. Each will be addressed in turn. Devon first argues:

(B)(4)

December 8 Request, pp. 2-3 (emphasis in second paragraph added; emphasis in third paragraph in original).

This argument is inconsistent with Devon's prior description of the physical operation of the compressors. According to Devon's own description, as explained in the October 9 Determination,

(B)(4)

Devon next argues:

(B)(4)

[3] Additionally, it is appropriate to reiterate that the October 9 Determination allows the entire

(B)(4)

(B)(4)

December 8 Request, p. 3. First, this argument appears to mildly mischaracterize the October 9 Determination. The October 9 Determination did not say that gas sold at the tailgate of the (B)(4) plant is not in marketable condition until it is compressed to 1200 psi. As explained in the valuation determination, the documents MMS received from Devon and (B)(4) indicated that gas is compressed at the plant to a delivery pressure of 1100 psi, not 1200 psi. The October 9 Determination holds that the gas delivered at the tailgate of the plant must be at the pressure required to enter the receiving pipeline that takes the gas to its market. In the case of that gas, that happens to be 1100 psi.

Second, Devon has done nothing more than assert that it "believes" that (B)(4) sells other gas at pressures less than 1200 psi. Devon has put nothing into the record to show at what pressures and into what markets (B)(4) actually sells its gas.

Third, in any event, whether (B)(4) sells some gas at lower pressures ultimately is irrelevant. (Indeed, we may assume, *arguendo*, that it does so; Devon itself sells some gas at the (B)(4) at approximately 550 psi.) As explained in the October 9 Determination, whether particular gas is in marketable condition is not a function of the lowest pressure at which <u>any</u> of the gas is in marketable condition. As is the case here, gas produced from large fields may serve more than one market. Particular gas must be in marketable condition for the market it serves, which requires that it be at the pressure necessary to enter the pipeline that takes the gas to that market. The fact that the gas sold at the (B)(4) was in marketable condition at 550 psi does not imply that all the gas is in marketable condition at that pressure.

Devon's implicit theory is analogous to the theory that the court rejected in *Amoco Production Co. v. Baca* and *Vastar Resources, Inc. v. Baca*, Civil Nos. 00-02933 and 00-1480 (D.D.C. Nov. 14, 2003), *appeal pending*, No. 04-____ (D.C. Cir.). There, the lessees sold a small percentage of coalbed methane production into a small local market in the vicinity of the lease without first removing the CO_2. The lessees argued that all the gas was in marketable condition because some of it was sold without CO_2 removal. The fact that gas did not need to be conditioned to meet the requirements of the local purchaser did not imply that the rest of the gas was in marketable condition. The court held that the Secretary properly required the lessees to condition the rest of the gas to pipeline CO_2 content requirements to serve the more distant markets into which it was sold.

IV. "Prior Practice and Policy"

Finally, Devon argues that the October 9 Determination "ignore[s] the agency's prior practice and policy as reflected in the December 1995 Deputy Director's memoranda" and that notice-and-comment rulemaking is required to change the "practice." December 8 Request, p. 3. Devon relies on *Shell Offshore, Inc. v. Babbitt*, 238 F.3d 622 (5th Cir. 2001) and *Torch Operating Co. v. Babbitt*, 172 F. Supp. 2d 113 (D.D.C. 2001).

As explained in the October 9 Determination, certain specific aspects of the December 7, 1995, and December 8, 1995 internal memoranda from the then-Deputy Director of the MMS to two Associate Directors were (at least as subordinate MMS officials apparently had read them and applied them in practice) inconsistent with or misinterpreted the marketable condition rule itself. It is well established that a Federal agency is not bound by unauthorized acts of its employees. The issuance of internal memoranda between subordinate agency officials that in certain respects appear to misinterpret a rule that has been in existence for many years before those memoranda were even written does not require notice-and-comment rulemaking under the Administrative Procedure Act (APA), 5 U.S.C. § 553, to correct the subordinate officials' errors.

The situation in the instant case is not like the situation in either *Shell Offshore* or *Torch*. In those cases, the 1988 MMS crude oil valuation rules provided for an exception to the requirement that a lessee calculate actual transportation costs in non-arm's-length transportation situations. The exception was that a lessee could apply to use a "tariff for the transportation system approved by the Federal Energy Regulatory Commission (FERC)" in lieu of calculating actual costs. Former 30 C.F.R. § 206.105(b)(5) (1988-1999). After FERC held that it did not have jurisdiction over certain offshore pipelines, MMS, in the two cases cited, denied use of tariffs that the respective lessees had filed with FERC unless the lessees could show that FERC did have jurisdiction to adjudicate a tariff for the pipeline. But since the promulgation of the rule in 1988, MMS had always allowed use of tariffs that merely had been filed with FERC and had never required lessees to affirmatively demonstrate FERC jurisdiction to adjudicate them. As a result, the courts in both *Shell Offshore* and *Torch* held that changing MMS' longstanding (and from the rule's inception, uniform) interpretation of the rule required APA notice-and-comment rulemaking.

In the instant case, the marketable condition rule pre-dated the internal MMS memoranda by at least 53 years for onshore leases and 41 years for offshore leases. The December 1995 memoranda did not reflect a longstanding and uniform agency interpretation of a regulation from the inception of the regulation. Neither *Shell Offshore* nor *Torch* implies that notice-and-comment rulemaking is necessary to correct any and all interpretive errors of a subordinate agency official. Devon's reliance on these cases under the current circumstances therefore is misplaced.

ORDER TO PERFORM RESTRUCTURED ACCOUNTING AND PAY ADDITIONAL ROYALTIES

Devon's deduction of the costs of the screw compressors, reciprocating compressors, dehydrators, and compression at the (B)(4) plant constitutes a systemic error in Devon's royalty payments. For all of the reasons explained above and in the October 9 Determination, the Department of the Interior hereby orders Devon to perform a restructured accounting and pay additional royalties on the coalbed methane produced from the Federal leases in the (B)(4) (B)(4) Fields that are the subject of the October 9 Determination in accordance with the October 9 Determination, as clarified by the discussion above responding to Devon's December 8 Request. The restructured accounting must cover the period beginning when Devon began paying royalties to the Minerals Management Service on the coalbed methane produced from the Federal leases in each of the three fields to the present.

To comply with applicable regulations, Devon is ordered to perform the following steps within 60 days of receipt of this order:

- Restructure the accounting for the leases and wells for which Devon pays Federal royalties for coalbed methane sales from the (B)(4) Fields, Wyoming, starting with the sales months in which such payments were first made to the MMS and continuing to the present. The allowances must be restructured to reflect the valuation determination dated October 9, 2003, as clarified by this letter and order.

- Report and pay any additional royalties shown to be due to MMS based on the restructured accounting.

If Devon believes that 60 days is not a sufficient time within which to perform the restructured accounting and report and pay, MMS may grant an extension of that time upon Devon's request and Devon's showing of what additional time is necessary and reasonable.

Hereafter, Devon must report and pay royalties under the regulations and guidelines discussed in this order. In the future, if Devon does not perform the required accounting or pay royalties in compliance with this order, we may treat the violations as willful. 30 C.F.R. Part 241, Subpart B (2003).

If Devon agrees with this order and voluntarily reports and pays to MMS, the modified Report of Sales and Royalty Remittance (Form MMS-2014) and payment must reach MMS within 60 days from the date Devon receives this order unless MMS grants an extension of that time. Devon must keep all documents supporting compliance with this order until MMS completes its follow-up compliance testing.

When reporting and paying, please:

- Use procedures outlined in 30 C.F.R. § 210.20 for electronic reporting of Form MMS-2014. Chapter 9 of the Minerals Revenue Reporter Handbook-Oil, Gas, and Geothermal Resources (handbook) describes how to report using electronic commerce.

- Use procedures outlined in 30 C.F.R. § 218.51(b) (2003) for electronic payments. Be sure to reference the Form MMS-2014 block 4 number in the electronic payment document.

- Use adjustment reason code 17 on Form MMS-2014. Place the number 72000100 in block 4.

- Call 800-525-0309 for assistance in reporting and payment.

After MMS receives payment, MMS will compute late-payment charges and bill Devon as required by 30 C.F.R. § 218.102 (2003).

If Devon does not comply with this order, we may assess civil penalties under section 109 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), 30 U.S.C. § 1719, and 30 C.F.R. Part 241, Subpart B (2003), for failure to comply with statute, regulation, order, or terms of the lease.

Because this order is issued by an Assistant Secretary of the Department of the Interior, it is not subject to appeal to the Interior Board of Land Appeals and is the final action of the Department. *See Blue Star, Inc.*, 41 IBLA 337 (1979); *Marathon Oil Co.*, 108 IBLA 177 (1989). Further, because this order is issued by an Assistant Secretary, the provisions of 30 U.S.C. § 1724(d)(4)(B)(ii)(V) regarding administrative appeal of the order do not apply.

For answers to questions, please call Mary Williams, Manager, Federal Onshore Oil and Gas Compliance, MMS at (303) 231-3403.

Chad Calvert
Acting Assistant Secretary
for Land and Minerals Management

Enclosure: Acting Assistant Secretary's Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming, dated October 9, 2003

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157 IBLA at 299.

V. Application of Legal Principles to Devon's Case

A. Compression

In the instant matter — as was the case in *The Texas Co., California Co. v. Udall, R. E. Yarbrough & Co., Bailey D. Gothard v. United States, Branch Oil and Gas Co.*, the *Marathon/Phillips* cases, and *J-W Operating Co.*, all of which are discussed above — Devon has not shown that the gas can be marketed at the pressure at which it comes from the wells. There is no commercial market for gas that flows from the wells at between 2 and 10 psig.[21]

Similarly, Devon has not shown that there is any market for the gas at the pressure at which it exits the screw compressors (approximately 100 psi). Except for the portion of Devon's gas produced from the (B)(4) Field that it sells to (B)(4) (which Devon delivers at about 550 psi), Devon likewise has not shown that there is any market for the gas at the pressure at which it exits the reciprocating compressors (between 550 and 800 psi).

Gas produced from the [redacted] is all sold in markets remote from the fields. Those markets are at least as far away as the (B)(4) Plant. Gas produced from the (B)(4) (B)(4) serves both a small market at the [redacted] and the remote markets also served by the gas produced from the [redacted] Fields.

Where the market for gas is at or near the field, the practices of the purchasers will dictate what constitutes marketable condition. In earlier decades, pipelines were the principal purchasers of gas and bought most of their gas near the lease or field. In that context, the sales contracts between the producers and the pipelines established the pressure requirement as that necessary for the gas to be delivered into the buyer's line and thereby marketed.[22] But when the market is not in the field, the requisite pressure for the gas to be marketable is the pressure necessary for the gas to enter and pass through the line through which it must pass to be delivered to the purchaser(s).

The established demand for an identified product was for gas that could be delivered to the purchasers and that the purchasers would accept. The gas for which there was a market was at the

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[21] The facts in the instant matter are not analogous to the rather unusual circumstances presented in the IBLA's *Xeno* decision discussed above. In the instant situation, there were no competing offers to buy uncompressed and ungathered gas at the pressure at which the gas is produced. By Devon's own admission, the pressure of the gas as it comes from the wells plainly is not adequate to gain access to the pipeline market.

[22] In the *Beartooth* and *Xeno* cases, the market for the gas was, or at least may have been, near the lease or unit. In the instant matter, that is true only for the portion of the (B)(4) production sold to (B)(4)

required pressure and water content levels for the receiving pipelines. Except for the portion of the gas sold to (B)(4) Devon has to deliver gas to the Wyoming Interstate Medicine Bow Lateral pipeline or the CIG Powder River Lateral pipeline at 1,100 psi (the pipeline's pressure) in order to sell that gas. Devon could not meet the requirements of any of its sales contracts without compressing the gas to the pressure necessary to get it into those lines (or, in the case of the gas sold at the (B)(4). That is the pressure that would enable the gas to be "accepted by a purchaser under a sales contract typical for the field or area," in the words of the definition at 30 C.F.R. § 206.151. In other words, to meet the requirements of the "sales contract[s] typical for the field or area," Devon had to compress the gas to pipeline pressure.

As discussed above, the preamble to the 1988 regulation discussing the marketable condition rule expressly contemplated compression to pipeline pressure requirements. As in *Shoshone and Arapaho Tribes v. Hodel*, the compression necessary for the gas to pass through the pipeline and ultimately to the purchaser, and, as in *R.E. Yarbrough & Co.*, *Marathon/Phillips*, and *J-W Operating Co.*, the compression necessary to enable the gas to be marketed in a standard high-pressure pipeline, is part of putting the production into marketable condition. (All of those cases are discussed above.) The costs of that conditioning cannot reduce the royalty value.

From the earliest precedents in *The Texas Co.* and *The California Co.*, continuing through the 1988 rules and the discussion in the preamble, and through the most recent decisions, the principle that the lessee must compress the gas to a pressure sufficient to enter the relevant pipeline has been uniformly upheld in both Departmental and judicial decisions. Where — and in how many phases or steps Devon chooses to compress the gas to the necessary pressure is up to Devon. But regardless of the physical processes or particular engineering scheme it finds to be most suitable, the costs of compression to the relevant pipeline pressure are not deductible.

The gas delivered to (B)(4) Station is at the pressure necessary to be in marketable condition at the outlet of the reciprocating compressor, which compresses it to delivery pressure. It follows that for that gas, the costs of the screw compressors and the reciprocating compressor(s) are not deductible.

But there can be more than one market for gas produced from a particular field. What constitutes marketable condition is not determined by the "lowest common denominator." In other words, the fact that some gas is marketable for one market does not make all the gas in the same condition marketable if the other gas serves a different market.

The screw compressors and reciprocating compressors compress gas to between 550-600 psi (for the (B)(4) Fields) and 800 psi (for the (B)(4) Field). The screw compressors and the reciprocating compressors thus bring the gas produced from all three fields that goes to the (B)(4) Plant part way to pipeline pressure/marketable condition. The costs of those compressors therefore are not deductible.

After the reciprocating compressors, the gas going to the (B)(4) Plant is first compressed to 1,200 psi at the (B)(4) and then is recompressed at the plant from 800 psi at the plant inlet to the delivery pressure of 1,100 psi at the plant outlet. The gas delivered to the Wyoming Interstate (B)(4) pipeline and the (B)(4) pipeline at the tailgate of the Buckshot Plant thus first reached the pressure necessary to be marketable at the (B)(4) Because the gas lost approximately one third of its pressure in transmission to the (B)(4) Plant, Devon had to recompress the gas at the (B)(4) Plant for delivery to the two pipelines. The gas thereby again reached the necessary pressure to be marketable at the (B)(4) Plant. But in general, Devon is not required to condition the production to marketable condition more than once at its own expense.[23] Nor is Devon required to keep the gas at the pressure needed to be in marketable condition throughout the process until it is delivered to the purchaser, where, as here, the gas loses pressure as it moves downstream.

In the instant matter, if the Plant and the connections with the Wyoming Interstate (B)(4) and the (B)(4) had been located at or near the field, there presumably would have been no before the plant. The gas presumably would have been compressed at the plant from approximately the pressure at the outlet of the reciprocating compressors up to the ultimate delivery pressure. Had that been the case, all the compression costs through the tailgate of the plant would have been disallowed.[24] The difference in this case is that the plant is located 115 miles downstream of where gas from FB 28-13 (the (B)(4) reciprocating compressor) enters (B)(4) from FB 11-56 in the (B)(4) Field. Thus, if compression is performed to move gas to the plant because the plant is distant from the lease and is not otherwise a necessary component of bringing the gas to the relevant pipeline pressure, the costs of that compression will be allowed as a deduction.

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[23] It may be argued that the provision in the processed gas rule that prohibits deduction of the costs of boosting residue gas at a gas processing plant is an exception to this principle in some circumstances. *See* 30 C.F.R. § 202.151(b) (1988-present); *see also* former 30 C.F.R. § 206.106(b) (1982-1987), formerly codified at 30 C.F.R. § 221.51(b) (1942-1981). Depending on the circumstances, gas could be at the pressure required for it to be in marketable condition before it enters the processing plant. If it were, the lessee nevertheless could not deduct the costs of boosting the residue gas at the plant after processing. In the instant matter, the CO_2 extracted at the (B)(4) Plant is not sold, and Devon consequently cannot claim a processing allowance. In the event that Devon were to sell the CO_2, Devon would then deduct a processing allowance in determining the value of the CO_2 under 30 C.F.R. §§ 206.158-206.159, and, at the same time, the rule discussed here would prohibit Devon from deducting the costs of boosting at the (B)(4) Plant.

[24] Indeed, for gas processing plants that process gas and compress the residue gas for delivery to a pipeline at the tailgate of the plant, MMS does not allow a deduction for those compression costs because of the marketable condition requirement and the corresponding regulation specifically disallowing deductions for the costs of boosting (compressing) residue gas. *See* 30 C.F.R. § 206.202.151(b) (1988-2003).

The reference in the regulatory definition to "a central accumulation and/or treatment point on the lease, unit or communitized area, or *[] a central accumulation or treatment point off the lease*, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively" relates to the BLM and MMS rules on measurement and commingling. The BLM regulations at 43 C.F.R. §3162.7-3, the provisions relevant to this matter, provide in relevant part:

> All gas production shall be measured by orifice meters or other methods acceptable to the authorized officer on the lease pursuant to methods and procedures prescribed in applicable orders and notices. . . . Off-lease measurement or commingling with production from other sources prior to measurement *may be approved by the authorized officer.*[26]

In the instant matter, BLM has approved the CDPs as the measurement point. Under the definition promulgated in the 1988 rules, movement of the gas to the CDPs and the custody transfer meter constitutes gathering. Movement beyond the custody transfer meter at the CDPs constitutes transportation.

That does not mean, however, that the costs of all processes undertaken after the CDPs constitute costs of transportation, because further treatment and conditioning processes may be performed after gathering has been completed. In the instant matter, those processes include compression, dehydration and CO_2 removal, as discussed above. The fact that gas has been gathered does not imply that it otherwise is in marketable condition in all respects.

Under the facts considered here, the lessee could have requested, and BLM could have approved, a different point as the approved measurement point — for example, the field boosters/reciprocating compressors. But the lessee did not so request, and BLM accepted the CDPs as the approved measurement point, and the consequence described above follows from that decision.

Therefore, Devon may deduct line costs beyond the CDPs, but not the costs of compression (to the extent explained previously) or dehydration performed after the CDPs, for the reasons explained above.

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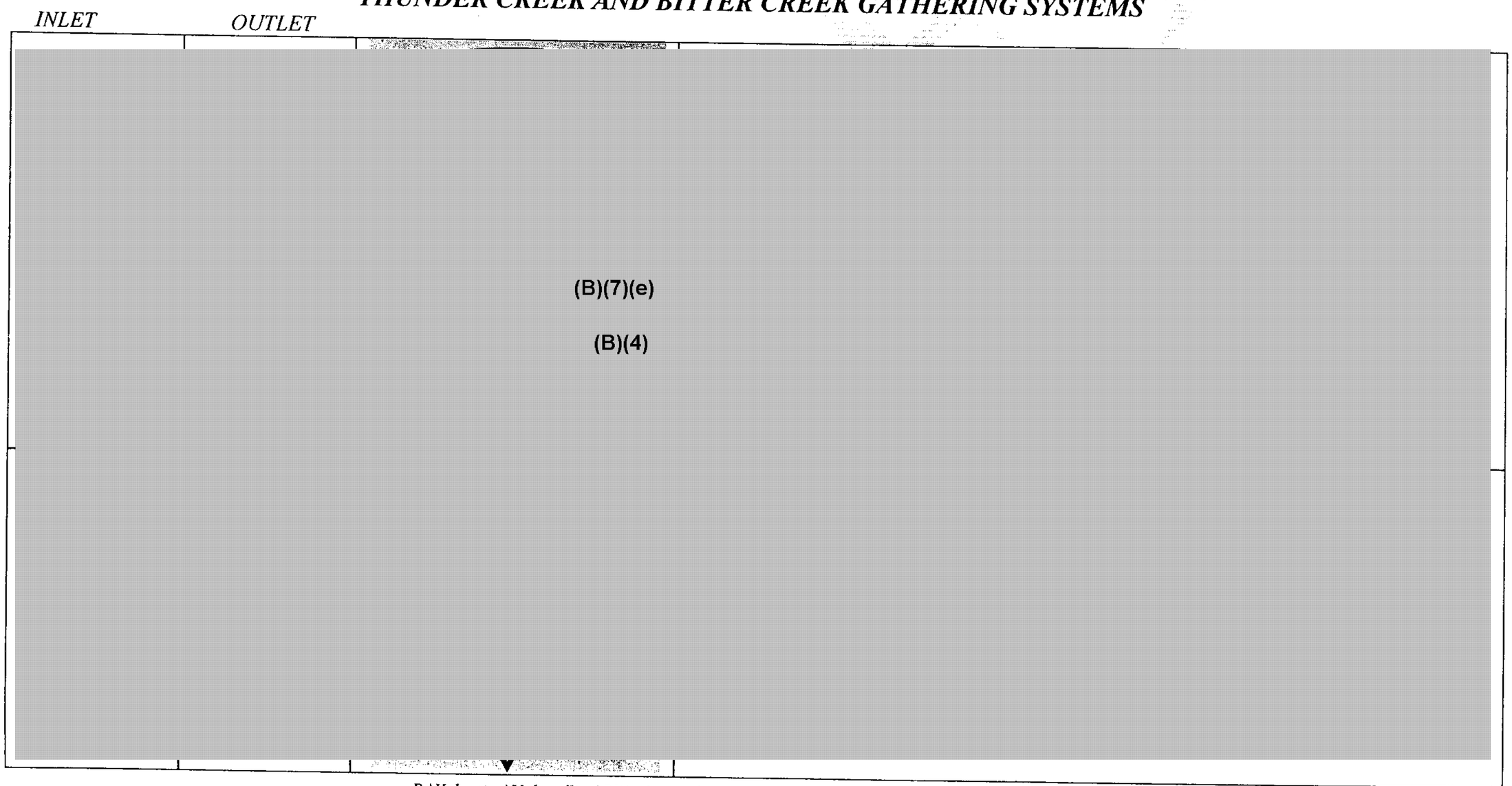
[26] MMS' offshore operations regulations include provisions governing approval of measurement procedures (currently codified at 30 C.F.R. § 250.1203(b)(1)) and commingling approvals (currently codified at 30 C.F.R. § 250.1204(a)(1)).

(B)(7)(e)

Questions for the MMS based on the Devon's presentation of Thunder Creek system:

1. Is field compression allowed?
2. Are the field booster compressors and dehydrators allowed?
3. Does the Rough Draw production sold and delivered to Williston Basin Interstate (WBI) pipeline at Landeck Station set the marketable condition parameters for the remaining natural gas carried by the Thunder Creek 24-inch line?
4. Is the MTG compression allowed?
5. Is the Buckshot Gas Treatment Plant allowed?

BACKGROUND AND FACTS FOR THE DEVON DECISION
THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS



THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS

INLET *OUTLET*

(B)(7)(e)

(B)(4)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

OCT - 9 2003

CERTIFIED MAIL —
RETURN RECEIPT REQUESTED

Mr. Gregg Henson
Assistant Controller
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Re: Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming

Dear Mr. Henson:

By your letter dated January 11, 2002, Devon Energy Corp. ("Devon") requested a valuation determination for coalbed methane produced from Federal oil and gas leases in the Kitty, Spotted Horse, and Rough Draw Fields in the Powder River Basin in Wyoming. We are issuing this determination in response to that request under 30 C.F.R. § 206.152(g).

For the reasons explained in detail in the attached analysis, we have concluded that in determining the value of the coalbed methane for royalty purposes, Devon may deduct the costs of the compressor known as the "MTG Booster" as part of the allowed costs of transportation. Devon may not deduct the costs of any of the screw compressors or the reciprocating compressors described in the attached analysis. Nor may Devon deduct the costs of compression at the Buckshot Plant. The compression performed at the screw compressors, the reciprocating compressors, and the plant are necessary to put production into marketable condition. Further, Devon may not deduct the costs of dehydration at the reciprocating compressors and the Buckshot Plant, which also are necessary to put the production into marketable condition. Finally, Devon may deduct line costs beyond the central delivery points (CDPs) described in the attached analysis as part of the allowed costs of transportation, but Devon may not deduct the costs of compression (to the extent explained previously) or dehydration performed after the CDPs, for the reasons explained in the attached analysis.

This determination is based on the facts available to MMS as Devon and its affiliate, Thunder Creek Gas Services, LLC, have provided them. If the facts explained in the attached analysis are incorrect in any significant respect, Devon may submit such facts as it believes would justify a re-examination of this determination.

Because this determination is issued by an Assistant Secretary of the Interior, it is the final action of the Department of the Interior and is not appealable to the Interior Board of Land Appeals. *See, e.g.*, *Blue Star, Inc.*, 41 IBLA 337 (1979); *Marathon Oil Co.*, 108 IBLA 177 (1989).

ACTING Assistant Secretary for Land and Minerals Management

ANALYSIS FOR VALUATION DETERMINATION FOR COALBED METHANE PRODUCTION FROM THE KITTY, SPOTTED HORSE, AND ROUGH DRAW FIELDS, POWDER RIVER BASIN, WYOMING

BACKGROUND AND FACTS

The facts discussed below are drawn from the January 11, 2002 letter from Devon Energy Corp. ("Devon") requesting the valuation determination, other documents Devon has submitted in support of its request for a valuation determination, and maps and other information provided by Thunder Creek Gas Services, LLC ("Thunder Creek"), in response to informal inquiries. In addition, representatives of Devon and the Minerals Management Service ("MMS") met in Lakewood, Colorado, on June 21, 2001, to discuss Devon's Powder River Basin production and transportation operations. On September 25, 2001, MMS representatives toured Devon's production operations and certain of the Thunder Creek facilities.

In the latter 1990s, Devon acquired considerable working interest ownership in coalbed methane-producing leases in the three fields named above. A substantial part of the interests Devon acquired are Federal leases. Devon operates the Kitty and Spotted Horse Fields. Redstone Resources, Inc., a firm not affiliated with Devon, operates the Rough Draw Field.[1]

A. General Operational Scheme of Coalbed Methane Fields

Devon and KN Energy, Inc. formed Thunder Creek as a partnership in 1998. Devon owns 75 percent of Thunder Creek, and KN Energy owns 25 percent. Thunder Creek constructed and operates a 24-inch high-pressure gas pipeline extending from its beginning at the Landeck Station north-northwest of Gillette, Wyoming,[2] some 126 miles almost due south to its end at the Buckshot Gas Plant between Glenrock and Douglas, Wyoming. Thunder Creek also operates several smaller-diameter systems, as described more fully below, that ultimately connect to the 24-inch line, as also set forth more fully below. The smaller-diameter Thunder Creek lines move Devon's gas produced from the Kitty and Spotted Horse Fields to the 126-mile line. A smaller-diameter line operated by Bitter Creek Pipelines, LLC (owned by Williston Basin Interstate ("WBI")), moves Devon's gas produced from the Rough Draw Field to the 126-mile line.

The basic operational scheme of each of the three fields is very similar. Each of the fields has a large number of individual wells that produce natural gas from subterranean coalbeds. Gas

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[1] Our understanding is that Devon sometimes refers to the northern portion of the Kitty Field, as shown on Devon's maps, as the Rough Draw Field. That term, however, also refers to the immediately adjacent field operated by Redstone Resources. For purposes of this document, the "Rough Draw Field" refers to the facilities operated by Redstone, and not to the northern portion of the Kitty Field operated by Devon.

[2] The Landeck Station (sometimes called the "Landeck header") is in the northern part of T52N R73W, 6th Principal Meridian, in Campbell County, Wyoming. (Hereinafter, all references to township and range numbers are with reference to the 6th Principal Meridian.)

produced from individual wells is gathered to one of several central delivery points ("CDPs") in the field. A CDP may serve anywhere between 2 and 30 wells. There are several CDPs in each of the fields.

In the Kitty and Spotted Horse Fields, each of the CDPs has a two-phase separator to remove free water and a Devon-maintained total flow electronic meter. Each CDP is the Bureau of Land Management ("BLM")-approved royalty measurement point for the gas.

After passing through the CDP, the gas produced from the Kitty and Spotted Horse Fields enters a smaller-diameter Thunder Creek line. Gas produced from the Rough Draw Field enters the smaller-diameter Bitter Creek line at the CDP. A short distance from the CDP building, the gas passes through a custody transfer meter (maintained by Thunder Creek in the Kitty and Spotted Horse Fields, and by WBI in the Rough Draw Field). At this point, the gas has a carbon dioxide (CO_2) content of between 1 and 8 percent and a Btu content of between 930 and 980 Btu/cubic ft (dry) at 14.73 psia (pounds per square inch atmospheric). From the custody transfer meter, the gas moves a distance ranging from a few hundred feet to approximately 2.25 miles (depending on the particular circumstance of the CDP) to the inlet of a screw compressor.[3] The inlet pressure of the screw compressors is between 2 and 10 psig (pounds per square inch gauge). The outlet pressure at the screw compressors ranges from 80 to 100 psig.

The gas then moves farther down the smaller-diameter line for a distance of between approximately .1 mile and approximately 5.7 miles, again depending on the particular circumstance, where it enters a "field booster" (a reciprocating compressor).[4] The reciprocating compressor compresses the gas from an inlet pressure of 80-100 psi to approximately 550 psi (for gas from the Kitty Field) or 800 psi (for gas from the Spotted Horse Field). In each case, the gas also passes through a dehydrator immediately after the reciprocating compressor. There are two field boosters/reciprocating compressors in the Kitty Field and two in the Spotted Horse Field, as described more fully below.

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[3] Your January 11, 2002 letter stated that from the meter the gas moves "from only a few feet up to a mile" to reach the screw compressor. Analysis of the field maps indicates the range of distances between a CDP and the associated screw compressor to be as described above.

[4] The field booster stations have more than one reciprocating compressor, but all the reciprocating compressors are at the field booster stations. In each instance (at least in the Kitty and Spotted Horse Fields), one of the screw compressors also happens to be located in the immediate vicinity of the reciprocating compressors.

B. Field Facility Descriptions

1. Kitty Field

(B)(4)

[5] In the Kitty Field, CDPs are also designated using the same numbering system. In the Spotted Horse Field, field boosters and screw compressors are designated using the same numbering system just described, but the CDP numbers do not use that method.

CDP	Screw Compressor and Distance from CDP	Distance from
	(B)(4)	

CDP	Screw Compressor and Distance from CDP	Distance from
	(B)(4)	

CDP	Screw Compressor and Distance from CDP	Distance from

(B)(4)

3. (B)(4)

Devon and Thunder Creek have not furnished field maps of the (B)(4) -operated wells in the (B)(4) and the (B)(4) but Devon has submitted a schematic and description. The (B)(4) operated wells are in rather close proximity to the (B)(4) and much of (B)(4) operation is in (B)(4) north of Devon's (B)(4) Field operation.

Our understanding from the materials Devon has submitted is that the (B)(4) Field's operation is functionally the same as the other two fields described above, except that the custody transfer meter from (B)(4) system is after the screw compressors. The reciprocating compressor(s) and associated dehydrator(s) are located at the (B)(4) and the outlet pressure from the reciprocating compressor(s) for the (B)(4) Field gas is approximately (B)(4) (The distances between the CDPs and the screw compressors, and between the screw compressors and the reciprocating compressor(s) at the (B)(4) are not the same as the distances between the CDPs, screw compressors, and reciprocating compressors in the other fields.)

Before the gas produced from the (B)(4) Field enters the (B)(4) Devon treats (removes CO_2), (B)(4) pipeline (at a pressure of about at the All of Devon's other gas produced from that field enters the 126-mile line.

C. The (B)(4) Booster

Approximately 28 miles south of the (B)(4), all the gas reaches the (B)(4) and enters a large compressor called the (B)(4) Booster." (The (B)(4) is approximately 25 miles south of the point where gas from (B)(4) in the northern portion of the (B)(4) Field enters the 24-inch line, and approximately 17 miles south of the point where gas from in the southern portion of the (B)(4) Field enters the 24-inch line.) The (B)(4) Booster compresses the gas to raise the pressure from an inlet pressure o approximately The gas then travels the remaining approximately 96 miles to the (B)(4)

D. Treatment at the (B)(4) Gas Plant

At the (B)(4) Plant, the CO_2 is removed, the gas is dehydrated, and the gas is compressed from an inlet pressure of approximately to a tailgate pressure o At that pressure, at the tailgate of the plant, Devon delivers the treated gas into either the (B)(4) pipeline or the (B)(4) pipeline, through which the gas is transported to the various purchasers. Devon sells some of the gas at (B)(4) purchasers at the tailgate of the plant and sells some gas to other purchasers at (B)(4) (B)(4) further downstream.

ISSUES PRESENTED

The overall question is what costs involved in the movement of gas described above are deductible as transportation costs. Devon acknowledges that it is obligated to put the gas into marketable condition at no cost to the lessor.[6] At the same time, Devon is entitled to deduct its actual costs of transportation to sales points remote from the lease or unit when calculation of royalty value begins with the sales price at the remote location. (*See* 30 C.F.R. §§ 206.156 and 206.157.)

There are several points on which Devon and MMS agree. Devon agrees that the cost of removing CO_2 at the (B)(4) Plant (and removing CO_2 from the gas sold to (B)(4) *is a cost of putting production into marketable condition and is not deductible.* Devon further acknowledges that the CO_2 removal process occurs after most (for much of the gas, all) of the transportation has occurred. Devon and MMS agree that the cost of moving gas from the wells *to the respective CDPs is gathering and is not deductible.* Devon and MMS also agree that because Devon owns (B)(4) Devon must calculate actual transportation costs under 30 C.F.R. § 206.157(b), and may not rely on the rate(s) that (B)(4) charges to Devon. Devon and MMS additionally agree that costs of transporting the CO_2 component of the gas stream are not deductible.

MMS and Devon are not in agreement regarding the question of what costs incurred after the CDPs are necessary to put production into marketable condition. There appear to be three issues in this regard. First, Devon asserts that all compression occurring after the CDPs or custody transfer meters is deductible as a cost of transportation. Second, Devon maintains that the dehydration occurring after the reciprocating compressors and at the (B)(4) Plant is deductible as a cost of transportation.[7] Third, the State of Wyoming argues, in written comments dated May 28, 2002, that "[t]he low-pressure system is clearly gathering which is not deductible for federal royalty purposes." In other words, Wyoming argues that movement of the gas from the CDPs, at least to the reciprocating compressors, is gathering. Therefore, we must resolve the following issues:

1. Which compression costs are not deductible as costs of putting production into marketable condition, and which are deductible as transportation costs?

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[6] *See, inter alia*, 30 C.F.R. § 206.152(i); *California Co. v. Udall*, 296 F.2d 384 (D.C. Cir. 1961); *Mesa Operating Limited Partnership v. Dep't. of the Interior*, 931 F.2d 318 (5th cir. 1991); *Amerada Hess Corp. v. Dep't. of the Interior*, 170 F.3d 1032 (10th Cir. 1999). These authorities are discussed further below.

[7] Devon's letter to MMS dated February 7, 2003, responding to certain questions by MMS in a letter dated November 12, 2002, states that "[w]e include in our transportation allowance the costs of dehydration and compression occurring after or downstream of metering at the royalty measurement point [*i.e.*, at the CDPs]. We do not include in our transportation allowance any dehydration occurring at the wellhead, or compression that is unrelated to transportation."

2. Which dehydration costs are not deductible as costs of putting production into marketable condition, and which are deductible as transportation costs?

3. To what extent, if any, does movement of the gas downstream of the CDPs or custody transfer meters constitute gathering, the costs of which are not deductible as transportation costs?

ANALYSIS

I. Transportation and Transportation Allowances

Where the lessee transports production to a market remote from the lease or field, the lessee may deduct the cost of this transportation — a "transportation allowance" — from the royalty value of the gas. This principle was established in a long and uniform line of cases over many years.[8] These authorities were the basis on which the Department granted such allowances during the period before 1988. Regulations governing transportation allowances were promulgated on January 15, 1988 (53 Fed. Reg. 1272, effective March 1, 1988), as part of MMS' comprehensive product value regulations. The gas transportation allowance rules are codified at 30 C.F.R. §§ 206.156 and 206.157 (1988 - present).

The rules differentiate between arm's-length and non-arm's-length transportation arrangements. In brief, the rule allows a deduction in computing royalty value for the reasonable, actual costs incurred for transportation under an arm's-length contract. 30 C.F.R. § 206.157(a). In situations involving non-arm's-length transportation arrangements, the rule requires the lessee to compute its reasonable actual costs as the rule prescribes. 30 C.F.R. § 206.157(b). The expenses that the rule allows include operating and maintenance costs, allocable overhead, and either depreciation or a return on depreciable capital investment.

II. The "Marketable Condition Rule"

A. The 1942-1987 Rules

Interior Department regulations governing onshore Federal and Indian oil and gas leases in force since at least 1942 require lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment. The former 30 C.F.R. § 221.31 provided in relevant part:

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[8] *See, e.g.*, *United States v. General Petroleum Corp.*, 73 F. Supp 225, 263 (S.D. Cal. 1946), *aff'd*, *Continental Oil Co. v. United States*, 184 F.2d 802, 818-820 (9th Cir. 1950); *ARCO Oil and Gas Co.*, 109 IBLA 34, 37-38 (1989); *Shell Oil Co.*, 52 IBLA 15, 20 (1981); *C&K Petroleum, Inc.*, 27 IBLA 15, 20 (1976); *Kerr-McGee Corp.*, 22 IBLA 124, 126-128 (1975); *Shell Oil Co.*, 70 I.D. 393, 396 (1963). *See also*, *California Co. v. Udall*, 296 F.2d 384, 387 (D.C. Cir. 1961).

> [T]he lessee shall put into marketable condition, if commercially feasible, all products produced from the leased land and pay royalty thereon without recourse to the lessor for deductions on account of costs of treatment . . . .

This rule was later recodified as 43 C.F.R. § 3162.7-1:

> (a) The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land.[9]

As explained below, putting gas into marketable condition encompasses compression to a pressure necessary for the gas to be accepted into a pipeline, dehydration, gathering, and "sweetening."[10]

The 1942-1987 onshore and Indian valuation rules and the 1954-1987 offshore rules also contained provisions that addressed compression in the particular context of processing "wet" gas — *i.e.*, separating a gas stream that contains heavier entrained liquefiable hydrocarbons (such as

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[9] Rules governing offshore leases in effect since offshore leasing began in 1954 contained a substantively identical "marketable condition" requirement. *See* former 30 C.F.R. § 250.42 (1979-1987), with prior codifications at former 30 C.F.R. § 250.41(b) and former 30 C.F.R. § 250.42.

[10] In 1977, the U.S. Geological Survey (MMS' predecessor agency) published two regulations applicable to Federal onshore leases that supplemented the rules codified at 30 C.F.R. part 221 (later 30 C.F.R. part 206). These were "Notice to Lessees and Operators of Federal Onshore Oil and Gas Leases (NTL-1)," 42 Fed. Reg. 4546 (Jan. 25, 1977), and "Notice to Lessees and Operators of Federal and Indian Onshore Oil and Gas Leases (NTL-5)," 42 Fed. Reg. 22610 (May 4, 1977). Though not codified to the Code of Federal Regulations, they were adopted after notice and comment procedures. NTL-5 provided:

> Gross proceeds [the minimum value for royalty purposes] include, but are not limited to, tax reimbursements and payments to the lessee or operator for the performance of certain services such as <u>measuring, field gathering, compressing, sweetening, and dehydrating which are necessary to place the gas into marketable condition</u> and which the lessee or operator is obligated to perform at no cost to the lessor. Likewise, no deductions will be allowed for the uncompensated cost of placing the gas into marketable condition.

42 Fed. Reg. at 22611 (emphasis added). NTL-1 contained similar language. 42 Fed. Reg. at 4548. NTL-1 and NTL-5 were both superseded when MMS promulgated the 1988 royalty valuation rules discussed below.

ethane, propane, butane, etc.) into its constituent products (the extracted heavier liquid hydrocarbons and the dry residue methane). The regulations permitted an allowance against the value of the extracted liquids for the actual costs of processing, not to exceed specified limits. In that context, the rules expressly prohibited a deduction for the costs of compressing the residue gas (the dry methane left after extraction of the liquid hydrocarbons). The former 30 C.F.R. § 221.51(b) (1942), later recodified to 30 C.F.R. § 206.106(b) (1983-1987), provided:

> No allowance shall be made for boosting residue gas [*i.e.*, compression of the methane] or other expenses incidental to marketing.[11]

These provisions mirrored the general marketable condition requirement.[12]

B. Foundational Departmental and Judicial Precedents

In *The Texas Co.*, 64 I.D. 76 (1957), the appellant was the lessee of a Federal lease who produced low-pressure gas. The lessee contracted with another party to gather the gas to the central point in the field where the gas was delivered to the lessee's purchaser, and to compress the gas from the low pressure at which it was produced to the pressure required to enter the purchaser's pipeline (1,000 psi). The U.S. Geological Survey (USGS — MMS' predecessor agency) denied a deduction for the costs of gathering and compression, and the Texas Co. appealed to the Secretary.[13] The Acting Solicitor held that these costs were not deductible in determining the royalty value of the gas:

> The lease requires the lessee to market the production from the lease and until the gas from the wells is in such a condition that it can be sold in the market, it cannot be said that the lessee has fulfilled his obligations under the lease. <u>The lessee has not shown that the gas can be marketed at the pressure with which it comes from the wells</u>.

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[11] For offshore leases, the former 30 C.F.R. § 250.67(d) (1954), later recodified to the former 30 C.F.R. § 206.152(d) (1983-1987), contained identical language.

[12] During the same time frame (since at least 1942 for onshore leases and since 1954 for offshore leases) the Department's rules also provided that the lessee's "gross proceeds" -- the total consideration paid for purchase of the production — were the minimum value of production for royalty purposes, notwithstanding any other provisions. *See* former 30 C.F.R. § 206.103 (1983-1987), formerly 30 C.F.R. § 221.47 (1942-1982) (onshore leases); former 30 C.F.R. § 206.150 (1983-1987), formerly 30 C.F.R. § 250.64 (1954-1982) (offshore leases). These provisions became relevant in later litigation.

[13] At that time, there was no Interior Board of Land Appeals (IBLA), and the Solicitor was delegated the authority from the Secretary to decide administrative appeals from USGS decisions.

* * *

> In fulfillment of its express duty to market its gas, the appellant made a contract for the sale thereof. It agreed to deliver the gas at a given pressure presumably in order to sell the gas. It cannot reasonably expect the lessor to assume the cost of meeting the lessee's obligation in this respect.
>
> The situation presented here is not comparable to the situations dealt with in the textbooks and cases cited by the appellant wherein the cost of transportation was said to be allowable. In those cases there was no market in the field for the product and the lessee had to transport the product elsewhere in order to market it. Here a market for oil well gas exists in the Duck Lake Field and the cost of gathering the gas from the wells and transporting it to the point of sale in the field is deemed to be one of the ordinary incidents of lease operation.

64 I.D. at 79-80 (emphasis added).

Not long after *The Texas Company*, another case arose in which the California Company ("Calco") produced gas from a Federal lease, some of which was at a pressure less than pipeline pressure. Calco entered into a sales contract with a purchaser for gas suitable for pipeline transmission, including the requirement that gas be delivered at pipeline pressure. Calco paid to compress the gas to the required pressure, and paid royalty on a value computed by deducting the costs of compression, gathering, and dehydration from the sales price. The USGS held that these deductions were not allowable. On appeal, the Deputy Solicitor, for the Department, held that the deductions for compression, gathering, and dehydration were improper:

> The product involved is gas which is sold for 12 cents per 1,000 cubic feet, after it has been gathered to the point of delivery in the field designated in the sales contract and after so much thereof as requires it has been dehydrated and compressed to a condition suitable to enter the buyer's line. . . . They are, in the opinion of the Department and under *The Texas Company* decision, functions necessary to place the product — gas — in marketable condition. They are obligations of the lessee.
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> * * *
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> *In the circumstances, and after a full consideration of the appellant's* brief on appeal, it must be concluded that the decision of the Acting Director, Geological Survey, is a correct decision and that the deductions which the appellant has made for the cost of gathering,

> compressing, and dehydrating the gas sold from the leases have been improper.

The California Company, 66 I.D. 54, at 56 (1959) (emphasis added).

Calco then sought judicial review. In *California Co. v. Seaton*, 187 F. Supp. 445 (D.D.C. 1960), the District Court held that the costs of gathering, compression, and dehydration were necessary to put the production into marketable condition. The court sustained the Secretary's interpretation of the term "production" as "meaning all the gas in a marketable condition after it has gone through the operational procedures of separation, compression, and dehydration, such that it meets the buyer's minimum requirements." 187 F. Supp. at 454 (emphasis added).

On appeal, the D.C. Circuit affirmed. The court explained:

> Theoretically, any gas — any "production" — is "marketable." We can assume that, if the price were low enough to justify capital expenditures for conditioning equipment, someone would undertake to buy low pressure gas having a high water content. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between "marketing" and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition it comes from the wells. The only market, as far as this record shows, was for this gas at certain pressure and certain minimum water and hydrocarbon content. [Footnote omitted.]

California Co. v. Udall, 296 F.2d 384, at 387-88 (D.C. Cir. 1961) (emphasis added).[14]

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[14] We also learn from the rules and these cases that the operations ordinarily necessary to put gas into marketable condition include compression, gathering (joining gas from multiple wells for compression and marketing), and dehydration. Though not at issue in *The Texas Co.* or *California Co. v. Udall* because the gas produced from the particular fields was not "sour" gas (*i.e.*, gas with significant hydrogen sulfide (H_2S) or other "acid gas" content), putting gas into marketable condition also involves "sweetening" (removing sulphur or other acid gases) as necessary. Acid gases combine with water vapor to form corrosive compounds (such as sulfuric acid (H_2SO_4) or carbonic acid (H_2CO_3)) that damage gas pipelines. All of the conditioning operations — gathering, compression, dehydration, and "sweetening" — ordinarily are necessary to prepare gas for entry into a pipeline and, hence, to make it marketable.

In *Placid Oil Co.*, 70 I.D. 438 (1963), the lessee under three Federal leases had contracted with a related entity to perform compression, dehydration, and processing of "wet" gas (*i.e.*, gas containing liquefiable hydrocarbons) produced from the leases. The Acting USGS Director had disallowed deductions for the costs of gathering and dehydrating high pressure gas and gathering and compressing low pressure gas in computing royalties. On appeal to the Secretary, the Assistant Solicitor (acting for the Solicitor) held:

> Placid executed a contract on May 15, 1959, to sell the gas from its leases to the Peoples Gulf Coast Natural Gas Pipe Line Company. This contract obligated Placid to deliver the gas to Peoples' line . . . at a pressure not exceeding 1,000 p.s.i. and in accordance with certain quality specifications. To fulfill this contract, it was essential that Placid's gas be processed to remove liquid products, compressed, dehydrated, and otherwise be put in a condition for delivery to the pipeline. . . . *Placid has merely contracted out to [the related entity] the work necessary to put in marketable condition the gas to be sold* to Peoples. This cannot operate to permit Placid to deduct costs that it could not deduct if it did the processing itself.
>
> * * *
>
> As for the costs of gathering, dehydration, and compression, they are not deductible in the computation of royalties on the gas. *The Texas Company*, 64 I.D. 76 (1957); *The California Company*, 66 I.D. 54 (1959), *affirmed 296 F.2d 384 (D.C. Cir. 1961).*

70 I.D. at 439-440 (emphasis added).

The principle established by the marketable condition rule and *The Texas Company*, *California Co. v. Udall*, and *Placid Oil Co.* — namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value — stood uncontested for the next quarter century.

C. The Challenge to the Marketable Condition Rule in the Late 1980s

In 1987, one of the Federal offshore lessees, an affiliate of Mesa Petroleum Co., challenged the marketable condition rule in the context of gas price controls imposed under the Natural Gas Policy Act of 1978 (NGPA). The NGPA established a "maximum lawful price" for various statutorily-specified categories of natural gas. NGPA section 110, 15 U.S.C. § 3320, allowed purchasers to pay to sellers, as part of the permitted "first sale price" and in addition to the otherwise applicable "maximum lawful price," reimbursements for certain functions including gathering, compression, and treatment (*i.e.*, dehydration and sweetening). *The Federal Energy Regulatory*

Commission (FERC) implemented NGPA section 110 through a series of orders (codified as regulations) known as the FERC Order 94 series beginning in the early 1980s.

Mesa did not pay royalty on the reimbursements it received as part of the first sale price for the costs of putting its production into marketable condition. An Assistant Secretary upheld MMS' order to pay royalties on those payments as part of Mesa's gross proceeds. On judicial review, Mesa argued that its costs were bifurcated between "production" costs (the direct costs of extracting the gas) and so-called "post-production" costs — *i.e.*, costs that it incurred after the gas came through the wellhead. Costs necessary to put production into marketable condition were incurred after the gas was extracted, and allegedly therefore were "post-production" costs. Mesa then argued that it could deduct all post-production costs, including those for which it received reimbursement under NGPA § 110 and FERC Order 94. (If Mesa could deduct these costs, then the reimbursements it received from its purchaser would not be part of its gross proceeds and would not be royalty-bearing.) Mesa' theory was a direct challenge to the marketable condition rule because the implication of its argument was that the government was entitled to a royalty only on the value of raw untreated gas at the point of extraction.

In affirming a district court decision in the government's favor, the Fifth Circuit held:

> The DOI relies heavily on the Marketable Condition Rule to reach its conclusion that § 110 payments are subject to royalty valuation. In short, the DOI interprets the regulations to provide that: royalties are due on the gross proceeds accruing to the lessee; the term "gross proceeds" includes payments for the costs of treatment including measuring, gathering, compressing, sweetening, and dehydrating "where such services are necessary to place gas in marketable condition," whether the costs are absorbed in the price the purchaser pays pursuant to the set NGPA ceiling or are ultimately borne by the purchaser under § 110; accordingly, where the purchaser reimburses the lessee for treatment costs in accordance with § 110 and the Order 94 regulations, these payments become part of the value of production (gross proceeds) subject to royalty. . . . [W]e may reject the DOI's Order (and, consequently, the district court's judgment) only if the agency's interpretation is impermissible or unreasonable. Granting this deference, we conclude that the DOI's construction certainly does not rise to this level.

Mesa Operating Limited Partnership v. Dep't. of the Interior, 931 F.2d 318, at 323 (5th Cir. 1991), *cert. denied*, 502 U.S. 1058 (1992) (footnote omitted, emphasis added).

In two subsequent cases involving gathering costs, the courts followed *Mesa* and again upheld the marketable condition rule (and the lessee's duty to pay royalty on reimbursements for the costs of putting production into marketable condition). *Oryx Energy Co. v. Dep't. of the Interior*,

Civil No. 92-C-1052 E (N.D. Okla. 1997), and *Amerada Hess Corp. v. Dep't. of the Interior*, 170 F.3d 1032 (10th Cir. 1999). Subsequent IBLA cases involving reimbursements under the FERC Order 94 series also followed *Mesa*. *E.g.*, *Pogo Producing Co.*, 124 IBLA 76 (1992), and *Oxy USA Inc.*, 129 IBLA 285 (1994).

D. The 1988 Rules

In 1987-1988, at the same time the *Mesa* case was being litigated, the Department was engaged in rulemaking to rewrite its royalty valuation rules for oil and gas produced from Federal and Indian leases. 53 Fed. Reg. 1230 (Jan. 15, 1988) (gas valuation rule). The 1988 rules contained separate sections for valuing unprocessed gas (30 C.F.R. § 206.152) and processed gas (30 C.F.R. § 206.153). The 1988 rules also bifurcated valuation standards between gas sold at arm's length and gas not sold at arm's length.[15]

Under the 1988 rules, the lessee's gross proceeds also continued to be the minimum value of the gas for royalty purposes (sections 206.152(h) and 206.153(h)). The definition of "gross proceeds" in section 206.151 provided in relevant part:

> *Gross proceeds* (for royalty payment purposes) means the total monies and other consideration accruing to an oil and gas lessee for the disposition of the gas, residue gas, and gas plant products produced. Gross proceeds includes, but is not limited to, payments to the lessee for certain services such as dehydration, measurement, and/or gathering to the extent that the lessee is obligated to perform them at no cost to the Federal Government. . . .

The 1988 rules expressly continued and reaffirmed the marketable condition rule. The unprocessed gas rule provides:

> The lessee is required to place gas in marketable condition at no cost to the Federal government or Indian lessor unless otherwise provided in the lease agreement. Where the value established pursuant to this section is determined by the lessee's gross proceeds, that value shall be increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services the cost of which ordinarily is the responsibility of the lessee to place the gas in marketable condition.

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[15] For gas (or residue gas and gas plant products) sold at arm's length, the lessee's gross proceeds — the total consideration paid for the production — were accepted as the royalty value (sections 206.152(b) and 206.153(b)). For gas not sold at arm's length, sections 206.152(c) and 206.153(c) established value as the first of a hierarchical series of "benchmarks" intended to provide a more objective market measure of value external to the non-arm's-length transaction.

30 C.F.R. § 206.152(i) (1988). The processed gas rule contained an identical provision applicable to both residue gas and gas plant products at 30 C.F.R. § 206.153(i). The 1988 rule also added an express definition of "marketable condition" in section 206.151:

> *Marketable condition* means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

These provisions, with changes not relevant here, remain in force for Federal leases today.[16]

The preamble added further relevant explanation. Many of the industry's comments in opposition to the rule were to the effect that the lessor should share proportionately in all so-called "post-production" costs, that royalty is due only on the value of gas as it is "produced at the wellhead" (*i.e.*, before such functions as compression, gathering, dehydration, and sweetening), and that post-production treatment costs enhance the value of the production and therefore should be deductible. *These comments echoed the theories that were being litigated in the Mesa case at the* same time the rule was under consideration and was promulgated. 53 Fed. Reg. at 1243, 1252. As the *Mesa* court subsequently did, the preamble rejected these arguments. 53 Fed. Reg. at 1253.

With respect to compression, the preamble discussion of the marketable condition rule explained:

> Several State, Indian, and individual commenters agree with MMS's proposed provision that costs <u>such as those for compression to meet pipeline pressure requirements</u> to place the gas in marketable condition should be borne by the lessee.

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[16] In 1996, the rules for gas produced from Indian leases were separated from the rules applicable to Federal leases. 30 C.F.R. §§ 206.171 - 206.179 (1996-1999). In August 1999,the Indian gas valuation rules were substantially revised. 30 C.F.R. §§ 206.171 - 206.181 (2000-2003). Both rules reiterated the marketable condition rule. 30 C.F.R. §§ 206.172 and 206.173 (1996-1999) and 30 C.F.R. § 206.174(h) (2000-2003).

53 Fed. Reg. at 1252 (emphasis added).

With respect to gathering, the preamble noted that "[s]everal industry commenters recommended limiting gathering to the lease or unit area so a transportation allowance may be obtained for all off-lease movement." 53 Fed. Reg. at 1240. The rule and the preamble rejected this position. However, as the preamble explains, the new regulatory definition did effect some change from the concept of "field" gathering under the earlier precedents. The preamble stated:

field gathering

> *The operational regulation [sic] of both BLM and MMS require that* a lessee place all production in a marketable condition, if economically feasible, and that a lessee properly measure all production in a manner acceptable to the authorized officials of those agencies. Unless specifically approved otherwise, the requirements of the regulations must be met prior to the production leaving the lease. Therefore, when approval has been granted for the removal of production from a lease, unit, or communitized area for the purposes of treating the production or accumulating production for delivery to a purchaser prior to the requirements of the operational regulations having been met, MMS does not believe that any allowances should be granted for costs incurred by a lessee in these instances.

53 Fed. Reg. at 1240. In most instances, the new definition would not change what constitutes gathering. In some cases, however, transportation might begin sooner than under the earlier concept of "field" gathering. For example, in some circumstances there may be more than one BLM-approved accumulation point in what otherwise would constitute a "field." In other cases — *e.g.*, when BLM or MMS has approved an accumulation/delivery/measurement or treatment point off the lease or unit or communitized area, and that point is outside the "field" — transportation might begin later than under the earlier precedents.

The 1988 rules also continued the provision for processed gas that prohibits deducting the costs of boosting (compressing) residue gas at a gas processing plant. 30 C.F.R. § 202.151(b) (1988).

In short, the 1988 rules continued and reinforced the earlier principles and precedents regarding the lessee's obligation to put production into marketable condition. The sole exception was the modification regarding what constitutes "gathering" under the new definition. Requirements regarding compression, dehydration, and sweetening continued without change in the 1988 rules.

E. Case Precedents after 1988

In addition to the *Amerada Hess* and *Oryx* cases mentioned above, there have been several further administrative and judicial cases involving costs of putting production into marketable condition (including compression, gathering, dehydration, and sweetening) that have been litigated

in the time since MMS promulgated the 1988 rules. (Several of the cases, like *Amerada Hess* and *Oryx*, involve orders for periods before 1988, but several of the later decisions involve periods to which the 1988 rules apply.) Because most of these cases involve more than one conditioning function, it is difficult to separate them by category. We therefore will discuss them in essentially chronological order.

In *Shoshone & Arapaho Tribes v. Hodel*, 903 F.3d 784 (10th Cir. 1990), the Tenth Circuit upheld MMS' denial of a deduction for the costs of compressors located at the inlet of a gas processing plant. The court noted that even though the compressors increased gas flow pressure within the plant (which was a processing function), they also "increase the gas flow pressure to the level necessary to pass through the pipeline and ultimately to the purchaser of the gas, a marketing function." 903 F.3d at 788 (emphasis added). The court upheld MMS' interpretation of the regulations as disallowing deductions for these costs.

In *Exxon Co. USA*, 121 IBLA 234 (1991), the lessee accepted a lower price to reflect the purchaser's undertaking the function of desulphurizing (sweetening) sour gas produced from Federal leases. The IBLA held that the fact that the purchaser agreed to accept the untreated gas did not mean that the gas was marketable in its natural state, and that the costs of treatment could not be made deductible by transferring the treatment function to the purchaser. The IBLA upheld MMS' order requiring Exxon to add to its reported value the amount by which the price was reduced.

In *R. E. Yarbrough & Co.*, 122 IBLA 217 (1992), Yarbrough produced gas and sold it to NGO, which maintained a low-pressure gas gathering system. NGO compressed, dehydrated and gathered the gas and then sold it to Lone Star Gas Co. These processes were necessary "to enable the gas to be marketed in a standard high pressure gas pipeline." 122 IBLA at 218. The Yarbrough-NGO sales price was reduced by NGO's compression, dehydration, and gathering costs and Yarbrough paid royalties on this reduced sales price. The IBLA held that the compression, dehydration, and gathering costs were necessary to place the gas into marketable condition "for delivery to the pipeline buyer" (*i.e.*, the pipeline that bought the gas from NGO after conditioning) (122 IBLA at 223), and that Yarbrough therefore must pay royalties on a value not reduced by these costs.

In *Beartooth Oil and Gas Co. v. Lujan*, No. CV 92-99-BLG (D. Mont. Sept. 22, 1993), vacating and remanding *Beartooth Oil & Gas Co.*, 122 IBLA 267 (1992), the gas was delivered to the first purchaser, Mesa Pipeline Co., at the wellhead, but most of the gas was at sufficient pressure to travel between 3 and 20 miles to Mesa's compression plant. From there, the gas was sent another 50 miles through Mesa's pipeline to the interconnect with Mountain Fuel Resources' ("MFR's") pipeline, where Mesa sold the gas to MFR. Thus, it was at least possible that the gas in *Beartooth* was marketable in the absence of the compression Mesa performed, and the court remanded the case to the IBLA to make that determination. The court held only that the IBLA had failed to consider whether the Beartooth/Mesa contract was typical for the field (in which there were several other producers), and consequently had not analyzed whether the compression Mesa performed was necessary to put gas into marketable condition or was a transportation cost. Slip Op., No. CV 92-99-

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(B)(7)(e)

BLG at 4-5. Further, Beartooth had conceded that some of its gas had to be compressed at the lease to be accepted into Mesa's line, and that the costs of that compression were necessary to put the gas into marketable condition. *Id.*, at 6. The court therefore remanded the matter to IBLA to determine what specifically constituted "marketable condition" for the gas produced from the lease in that case. (The case was settled following the remand.)

In *Apache Corp.*, 127 IBLA 215 (1993), the purchaser desulphurized (sweetened) gas produced from Federal onshore leases. The purchase price was reduced by a fee for sulphur extraction. The IBLA upheld the lessee's obligation to sweeten the production at no cost to the lessor as part of the lessee's duty to put production into marketable condition without deduction for the costs of treatment. The IBLA therefore upheld MMS' disallowance of the price reduction for sweetening in determining royalty value.

The IBLA followed *Apache* and reached the same result for the same reasons in *Texaco Inc.*, 134 IBLA 109 (1995). In that case, the sales price was reduced by a $.998 per Mcf fee charged by the purchaser to remove H_2S. The IBLA upheld MMS' order requiring Texaco to increase the gross proceeds by the amount of the price reduction for sweetening. The United States District Court for the District of Wyoming upheld the IBLA decision on judicial review. *Texaco, Inc. v. Quarterman*, No. 96-CV-008J (D. Wyo. Aug. 20, 1996).

In *Xeno, Inc.*, 134 IBLA 172 (1995), several of the lessees in a very large producing area had formed a joint venture which purchased gas at the various wellheads in the field, accumulated it, compressed it to a higher pressure, and resold it to Montana Power Co. ("MPC") at a higher price at the interconnect with MPC's pipeline. However, before the lessees formed the joint venture, they had negotiated to market the gas directly from the wellheads in the field with a number of prospective purchasers. The lessees had received competing offers from both MPC and Northern Natural Gas. Indeed, MPC offered to buy the gas from the respective lessees directly at the wellhead at the same price that the joint venture ultimately paid without the gas first being accumulated from all the sources or compressed. Further, the pressure of the gas at the wellhead was adequate to gain access to the pipeline market. Consequently, under those facts, the Board found that a market for the uncompressed and ungathered gas (created by more than one purchaser) existed at the wellhead in that area, and remanded the case to the IBLA for recalculation of royalties. (The parties later settled.)

In *Bailey D. Gothard v. United States*, No. CV 98-103-BLG (D. Mont. June 29, 1999), the District of Montana upheld the IBLA's decision in *Bailey D. Gothard*, 144 IBLA 17 (1998). In that case, Gothard's gas came from the well at a very low pressure. Gothard sold the uncompressed low-pressure gas to a gatherer, Cascade Gas Co. ("Cascade") at arm's length. Cascade compressed the gas and resold the compressed gas to MPC, and the gas was delivered into MPC's pipeline. Cascade paid Gothard 70 percent of the price Cascade received from MPC. Gothard initially paid royalties on the basis of that price. The 30 percent differential covered the compression and gathering costs. DOI assessed royalty on that difference. Gothard argued that there was a market for the gas in its uncompressed and ungathered condition by virtue of the fact that Cascade bought it in that condition.

The Magistrate Judge's Findings and Recommendation, dated May 24, 1999 (upheld in their entirety in the District Court's June 29, 1999 decision), explained:

> Plaintiff sold his ungathered and uncompressed gas (for which there was no market in that state) to Cascade, at a sufficiently reduced price to compensate Cascade for its costs in bringing the gas into generally marketable condition. The mere fact that Cascade was willing to buy the gas at a discounted price does not mean that the gas was marketable at that point, for royalty valuation purposes.

Findings and Recommendation at 6. In upholding the Secretary's determination that the proper royalty value was the price MPC paid for compressed and gathered gas, the court held:

> Any other result would elevate form over substance, and create a huge loophole whereby federal lessees could reduce their royalty obligations by shifting the costs of gathering and compression to buyers in a producer-created market, avoiding the marketability requirements of the "real," established market.

Findings and Recommendation at 7.

Identical facts involving other leases in the same communitized area were before the IBLA in *Branch Oil and Gas Co.*, 144 IBLA 304 (1998), and *Branch Oil and Gas Co.*, 143 IBLA 203 (1998). These cases involved facts essentially identical to those in the *Gothard* case and reached the same result.

Kerr-McGee Corp., 147 IBLA 277 (1999), addressed several offshore situations in which gas surfaced at a platform on the lease and was moved to a second platform on an adjacent lease for accumulation and treatment. The second platform was the MMS-approved measurement point and the point of delivery to the purchaser. The IBLA held that the movement of the gas from the first platform to the platform on the adjacent leases where the gas was accumulated, treated, measured, and delivered was gathering and not transportation under 30 C.F.R. § 206.101 (the definition of "gathering" in MMS' crude oil valuation rules is identical to the definition for gas in 30 C.F.R. § 206.151).

In *Marathon Oil Co.*, 149 IBLA 307 (1999), the lessee (Marathon) sold crude oil produced from Federal onshore leases to an affiliate. The affiliate gathered the oil and moved it to a pipeline owned by another producer, with whom it exchanged the oil for other crude. The exchange differential was calculated to reimburse Marathon's affiliate for the gathering costs. The IBLA held that the gathering reimbursements paid to the affiliate properly were regarded as part of the lessee's gross proceeds.

On February 1, 2002, the Deputy Secretary issued a decision in *Marathon Oil Co.*, Docket Nos. *MMS-99-0092-OCS, MMS-99-0098-OCS, and MMS-00-0083-OCS, and Phillips Petroleum Co.*, Docket No. MMS-99-0095-OCS. (Phillips' appeal involved the same leases and the same facts as one of the situations involved in Marathon's appeals.) In that situation, low-pressure gas and oil were produced at three offshore platforms on two adjacent leases. The gas was initially separated from oil and water, treated, and metered (for allocation purposes only) on the platforms where it surfaced. The gas was then commingled with the oil and moved from each of the three platforms to a fourth platform on a third adjacent lease (the MMS-approved royalty measurement point), where the gas was separated from the oil, measured, and compressed for entry into the transportation line. In the other principal situation involving Marathon addressed in that case, low-pressure gas was compressed, measured, and delivered on the platform where it surfaced. Marathon and Phillips asserted that all the compression costs were deductible as transportation costs. The Deputy Secretary's decision rejected Marathon's and Phillips' theories, and held that the costs of compression to pipeline pressure were part of putting the gas into marketable condition and were not deductible.[17]

In *Nexen Petroleum USA Inc.*, 157 IBLA 286 (2002), the IBLA addressed a situation similar to *Kerr-McGee*, in which several platforms on three adjacent offshore leases were involved. Oil and gas produced from the numerous wells surfaced at one of seven platforms on the three leases. On some (but not all) of the seven platforms, gas was separated from the oil at the platform at which production surfaced before the gas and oil were moved from that platform to a central platform complex on one of the leases. Gas and oil produced from wells that surfaced on the remaining platforms was moved to the central platform complex as bulk production. All the production from all seven platforms was treated, metered, and sold at the central platform complex. The central platform complex was the MMS-approved commingling, treatment, and measuring point. After an extensive discussion of many of the cases discussed above and the development of MMS' regulations, the IBLA held that the movement to the cental platform complex was gathering.[18] The IBLA rejected the lessee's argument that gathering ends at the first point at which any production is accumulated or commingled.

In *J-W Operating Co.*, 159 IBLA 1 (2003), an affiliated gathering system compressed, dehydrated, and gathered gas produced from Federal onshore leases. The affiliate purchased some of the gas, and reduced the purchase price by a specified amount for the costs of those functions. The affiliate also performed the identified services for the remainder of the gas that was sold to an

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[17] Marathon and Phillips both filed lawsuits for judicial review of the Deputy Secretary's decision. *Marathon Oil Co. v. Dep't. of the Interior*, No. 1:02CV01504 (D.D.C.); *Phillips Petroleum Co. v. Dep't. of the Interior*, No. 02 CV 343C (N.D. Okla.). Both of those lawsuits were pending as of September 9, 2003.

[18] Nexen has filed a lawsuit for judicial review of the IBLA's decision, *Nexen Petroleum USA Inc. et al. v. Norton*, Civil No. 02-3543 (E.D. La.), which was pending as of September 9, 2003.

unaffiliated purchaser, and was paid a specified price per MMBtu for those services. The MMS Associate Director's decision "conceded that a portion of those fees related to movement of production beyond the BLM-approved point of measurement at the lease meter were properly attributable to transportation. . . . *He accordingly allowed appellants the opportunity to submit to* MMS a proposed apportionment of the $.69 [per MMBtu] fee paid to [the affiliate] between (1) deductible transportation and (2) non-deductible costs incurred to place the gas in marketable condition." 159 IBLA at 7. That portion of the decision was not appealed.

In upholding the MMS' decision requiring the lessee to add the cost of compression and dehydration to the royalty value on which it had paid, the IBLA held:

> [I]t has been held repeatedly that the dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible. *Anson Co.*, 145 IBLA 221, 226 (1998); *Mobil Oil Corp.*, 108 IBLA 216 (1989); *The California Co.*, 66 I.D. 54, (1959), *aff'd*, *California Co. v. Udall*, 296 F.2d 384 (D.C. Cir. 1961); *The Texas Co.*, 64 I.D. 76, 79 (1957); *see also Mesa Operating Limited Partnership v. USDI*, 931 F.2d 318, 320 (5th Cir. 1991), *cert. denied*, 502 U.S. 1058 (1992).
>
> The basis for these holdings is the underlying principle (dealt with at length in the Associate Director's decision) that a Federal lessee must ordinarily bear the costs of placing produced gas in marketable condition at no cost to the Government and may not deduct those costs from royalty value. 30 CFR 206.152(i) and 206.153(i), 43 CFR 3162.7-1(a); *California Co. v. Udall, supra*. The costs of placing gas in marketable condition include compressing and dehydrating the gas.[11] *R. E. Yarbrough & Co.*, 122 IBLA 217, 221 (1993).

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[11] In *R. E. Yarbrough, supra*, we considered a sales arrangement similar to the ones at issue here. Yarbrough sold its gas production to Natural Gas Operations Company (NGO), which maintained a low pressure gas gathering system. NGO gathered the gas and dehydrated and compressed it, which was necessary to permit the gas to be marketed in a standard high pressure gas pipeline, and thereafter sold it to a third party. Like appellants' price, the price NGO paid Yarbrough was the price paid by a third party purchaser, less NGO's gathering, compression, and dehydration costs. Yarbrough argued that the gas was in marketable condition when sold to NGO, since Yarbrough

> was unable to sell its gas directly to a standard high pressure pipeline because there was no connection available. Like appellants here, Yarbrough's price was determined by a further sale after NGO conditioned the gas for market, leading us to conclude that the gas had not been placed in marketable condition until NGO did so on Yarbrough's behalf. The same conclusion must be reached here, as appellants do not dispute that the production involved here was unprocessed gas sold at the wellhead.

159 IBLA at 11-12 (emphasis added).[19]

III. December 1995 Deputy Director's Memoranda

On December 7, 1995, and December 8, 1995, the then-Deputy Director of the MMS issued two documents captioned "Coalbed Methane Valuation and Reporting Guidelines" and "Compression Guidance," respectively. Both of these documents were memoranda from the Deputy Director to the Associate Director for Royalty Management and the Associate Director for Policy and Management Improvement. These documents are not rules, were not promulgated pursuant to Administrative Procedure Act notice-and-comment provisions, were not issued or published to the public at large or to the lessees and royalty payors, and are not binding on either royalty payors or the agency. To the extent that there may be any conflict between the regulation and anything said in either of these documents, the regulation controls. *See, e.g., Phillips Petroleum Co. v. Johnson*, 22 F.3d 616 (5th Cir. 1994).

The December 7, 1995 "Coalbed Methane Valuation and Reporting Guidelines" grew out of a "request from producers of coalbed methane" in the San Juan Basin "that the costs of removing CO_2 and certain other costs be considered either as a transportation allowance or as extraordinary processing costs deductible against the value of the methane." Guidelines, p. 1. The document stated that "[u]nless the CO_2 is marketed and sold, no processing allowance may be claimed for extracting the CO_2 from the methane." Guidelines, p. 2. That principle is correct (and Devon does not dispute it in the instant matter). In addressing the transportation allowance questions, the document said, among other things:

> Compression costs incurred to enhance production are not allowable. To the extent that a producer can demonstrate that all or a portion of the compression occurring at the CDP [central delivery point] is necessary for transportation, that portion will be allowable as part of transportation.

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[19] *J-W Operating Co.* has filed a lawsuit for judicial review of the IBLA's decision. *J-W Operating Co. v. Triebsch*, No. 3-03CV1470-K (N.D. Tex.), which was pending as of September 9, 2003.

Guidelines, p. 2. The document did not further explain the phrase "*enhance production.*" *To avoid* unnecessary conflicts with the applicable regulation, we will construe that phrase to mean putting the production into marketable condition.

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It is difficult, at least in the coalbed methane context, to envision a situation in which compression at the CDP would be "necessary for transportation," in the words of the Guidelines, and not to put production into marketable condition. Simply because compression may be necessary to make gas transportable does not mean that the compression is a cost of transportation. For the reasons explained previously, the compression that makes gas transportable ordinarily is the compression that is necessary to make the gas marketable. In addition, in some circumstances, compression is also necessary for gas to be produced in the first instance because the system would achieve equilibrium without compression and production would stop. (We will assume for present purposes, however, that it is at least theoretically possible that a situation could arise in which compression at the CDP is a cost of transportation — for example, if the gas comes from the subterrancan formation at a pressure sufficient to enter the main transporting pipeline, and compression at a CDP is solely for the purpose of moving the gas to a distant treatment plant.)

The language of the Guidelines does not compel reading them to mean that all compression downstream of the CDP is a deductible cost of transportation. *If the document did intend that result* — or if it has been so understood in other contexts — then it is not consistent with the marketable condition rule and the applicable precedents, as analyzed above.

The December 7, 1995 Guidelines also addressed dehydration. They stated (at p. 2):

> Included in the transportation allowance for the methane are the costs of dehydration occurring after metering at the CDP. Any dehydration occurring at the wellhead is not an allowable deduction.

This statement is not a correct application of the marketable condition rule. Simply because gas has been accumulated at a CDP does not make all subsequent treatment costs deductible. Dehydration necessary to put gas into marketable condition may well occur after gas has flowed through a CDP.

The December 8, 1995 "Compression Guidance" memorandum, under the heading "Sales of Unprocessed Gas," states:

> A lessee's gross proceeds may not be reduced by the cost of compression, whether incurred directly or indirectly, which is performed to meet the delivery requirement for pressure of the pipeline immediately downstream of the BLM or MMS approved measurement point. Such compression is deemed to be for placing the gas into marketable condition.

> The cost of compression, whether incurred directly or indirectly, which is performed after meeting the delivery requirement for pressure of the pipeline immediately downstream of the BLM or MMS approved measurement point, is an allowable deduction from royalty as part of the lessee's cost of transportation.

The Guidance does not explain what is meant by the phrase the "pipeline immediately downstream" of the BLM- or MMS-approved measurement point, but MMS officials have apparently understood it to mean whatever line the gas flows through when it leaves the CDP, regardless of whether the line ordinarily would be regarded as a transportation "pipeline." Some MMS officials appear to have read this document as allowing the costs of all compression downstream of the CDP, regardless of the pressure of the gas at the CDP. At least as so interpreted and applied, the statements in the Compression Guidance quoted above are not consistent with the marketable condition rule.

It appears that the Compression Guidance memorandum (as well as the Coalbed Methane Valuation and Reporting Guidelines memorandum, if it were read as intending to accomplish the same result), is based on a mistaken perception that the decision in *Beartooth Oil & Gas Co. v. Lujan*, *supra*, holds or implies that all compression occurring after the approved measurement point is deductible. *Beartooth* did not so hold, and does not imply such a result. *Beartooth* involved a relatively rare situation in which much of the gas as produced was at sufficient pressure to travel a considerable distance (up to 20 miles) through the first pipeline without any compression. Even as to that gas, the court did not hold that no further compression was necessary for it to be marketable; instead, the court remanded the matter to the agency to make that determination. (The agency ultimately did not make the determination because of the subsequent settlement.) Further, even in *Beartooth*, the lessee acknowledged that the cost of compressing other gas to gain access to the line was non-deductible.

Beartooth

Beartooth does not imply that gas is in marketable condition without compression simply because it reaches the approved measurement point without compression. In many cases (including several of the precedents discussed above), and in contrast to *Beartooth*, it is not possible for the gas to be marketable without compression. Nor does *Beartooth* imply that gas is in marketable condition in all respects simply because it has been gathered.

IV. Unusual Dehydration Costs — the *Exxon* IBLA Decision

Some dehydration costs have been held to be deductible in very limited circumstances. In *Exxon Corp.*, 118 IBLA 221 (1991), the gas stream had unique characteristics that made it particularly difficult to handle. The raw gas stream consisted of almost two-thirds (65.4 percent) CO_2, only 22 percent methane, 7.5 percent nitrogen, 4.5 percent H_2S (an extraordinarily high concentration), and 0.6 percent helium. 118 IBLA at 223. The gas was initially dehydrated at a central facility just outside the producing units to a much drier condition than called for in the sales contracts, and then transported approximately 40 miles to the Shute Creek gas processing plant (which operated at cryogenic temperatures), where the gas was separated into its components. The

H_2S was manufactured into elemental sulfur and sold. The residue methane was sold at the tailgate of the plant. The separated nitrogen was sold at the plant tailgate, and CO_2 extracted from the raw gas stream also was sold. Thus, separate components of the gas stream became royalty-bearing products, and the cost of their removal therefore properly became the subject of a processing allowance.[20]

The IBLA allowed Exxon to deduct the cost of dehydration in the field facility, which the IBLA called a cost of "transportation." Though the IBLA described it as such, it is clear from the context that this was not a cost of transportation in the sense ordinarily understood. The dehydration was undertaken as part of moving the raw gas stream to the processing plant. Had the plant been built at a central field location like the initial dehydration facility was, the dehydration performed at the field facility would have been performed at the plant as part of processing the gas, and there would have been no need for the field facility. The IBLA acknowledged as much. 118 IBLA at 241. Therefore, although the IBLA described the dehydration as undertaken for "transportation," it was to facilitate movement to the processing plant and was for purposes of processing the gas. It was a function that ordinarily would have been done at the processing plant and would have been part of the costs taken into account in determining the processing allowance.

In the recent *Nexen* decision discussed above, the IBLA further noted regarding the *Exxon* decision:

> There, the Board permitted Exxon to deduct costs of initial gas dehydration as a "transportation allowance" because dehydration of the "atypical" sour gas stream was necessary for the long trip to the treatment plant to avoid shutdown of the operating system. Without dehydration to a level not required for marketing under the sales contract, excessive water would freeze and shut down the operating plant. Accordingly, dehydration was necessary to transport the gas, not to sell it or put it in marketable condition.[11]

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[11] Indeed, Exxon's gas had to be dehydrated to ".01 lbs. water/mcf * * * as any water would freeze at the -310°F operating temperatures and cause the shutdown of the Manufacturing Facility. Exxon's methane sales contract, by contrast, call[ed] for a maximum of 5 lbs. water/mcf — 500 times the amount necessitated by the manufacturing process." 118 IBLA at 235-36 (footnote omitted).

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[20] Thus, for example, instead of the lessee having to bear all of the costs of H_2S removal as part of putting the production into marketable condition, the lessee was entitled to a processing allowance because the H_2S was manufactured into a royalty-bearing product that was sold separately.

157 IBLA at 299.

V. Application of Legal Principles to Devon's Case

A. Compression

In the instant matter — as was the case in *The Texas Co., California Co. v. Udall, R. E. Yarbrough & Co., Bailey D. Gothard v. United States, Branch Oil and Gas Co.*, the *Marathon/Phillips* cases, and *J-W Operating Co.*, all of which are discussed above — Devon has not shown that the gas can be marketed at the pressure at which it comes from the wells. There is no commercial market for gas that flows from the wells at between 2 and 10 psig.[21]

Similarly, Devon has not shown that there is any market for the gas at the pressure at which it exits the screw compressors (approximately 100 psi). Except for the portion of Devon's gas produced from the (B)(4) Field that it sells to (B)(4) (which Devon delivers at about Devon likewise has not shown that there is any market for the gas at the pressure at which it exits the reciprocating compressors (between 550 and 800 psi).

Gas produced from the (B)(4) Fields is all sold in markets remote from the fields. Those markets are at Plant. Gas produced from the (B)(4) (B)(4) Field serves both a (B)(4) and the (B)(4) also served by the gas produced from the (B)(4) Fields.

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(B)(4)
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The established demand for an identified product was for gas that could be delivered to purchasers and that the purchasers would accept. The gas for which there was a market was at

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[21] The facts in the instant matter are not analogous to the rather unusual circumstances presented in the IBLA's *Xeno* decision discussed above. In the instant situation, there were no competing offers to buy uncompressed and ungathered gas at the pressure at which the gas is produced. By Devon's own admission, the pressure of the gas as it comes from the wells plainly is not adequate to gain access to the pipeline market.

[22] In the *Beartooth* and *Xeno* cases, the market for the gas was, or at least may have been, near the lease or unit. In the instant matter, that is true only for the portion of the (B)(4) Field production sold to (B)(4) Station.

required pressure and water content levels for the receiving pipelines. Except for the portion of the gas sold to (B)(4) Devon has to deliver gas to the (B)(4) (B)(4) pipeline or the (B)(4) pipeline at the pipeline's pressure) in order to sell that gas. Devon could not meet the requirements of any of its sales contracts without compressing the gas to the pressure necessary to get it into those lines (or, in the case of the gas sold at the (B)(4) That is the pressure that would enable the gas to be "accepted by a purchaser under a sales contract typical for the field or area," in the words of the definition at 30 C.F.R. § 206.151. In other words, to meet the requirements of the "sales contract[s] typical for the field or area," Devon had to compress the gas to pipeline pressure.

As discussed above, the preamble to the 1988 regulation discussing the marketable condition rule expressly contemplated compression to pipeline pressure requirements. As in *Shoshone and Arapaho Tribes v. Hodel*, the compression necessary for the gas to pass through the pipeline and ultimately to the purchaser, and, as in *R.E. Yarbrough & Co.*, *Marathon/Phillips*, and *J-W Operating Co.*, the compression necessary to enable the gas to be marketed in a standard high-pressure pipeline, is part of putting the production into marketable condition. (All of those cases are discussed above.) The costs of that conditioning cannot reduce the royalty value.

From the earliest precedents in *The Texas Co.* and *The California Co.*, continuing through the 1988 rules and the discussion in the preamble, and through the most recent decisions, the principle that the lessee must compress the gas to a pressure sufficient to enter the relevant pipeline has been uniformly upheld in both Departmental and judicial decisions. Where — and in how many phases or steps Devon chooses to compress the gas to the necessary pressure is up to Devon. But regardless of the physical processes or particular engineering scheme it finds to be most suitable, the costs of compression to the relevant pipeline pressure are not deductible.

The gas delivered to (B)(4) at the (B)(4) is at the pressure necessary to be in marketable condition at the outlet of the reciprocating compressor, which compresses it to delivery pressure. It follows that for that gas, the costs of the screw compressors and the reciprocating compressor(s) are not deductible.

But there can be more than one market for gas produced from a particular field. What constitutes marketable condition is not determined by the "lowest common denominator." In other words, the fact that some gas is marketable for one market does not make all the gas in the same condition marketable if the other gas serves a different market.

The screw compressors and reciprocating compressors compress gas to between psi (for the (B)(4) Fields) and for the (B)(4) Field). The screw compressors and the reciprocating compressors thus bring the gas produced from all three fields that goes to the (B)(4) Plant part way to pipeline pressure/marketable condition. The costs of those compressors therefore are not deductible.

After the reciprocating compressors, the gas going to the (B)(4) Plant is first compressed to [redacted] to [redacted] (B)(4) (B)(4) [redacted] pipeline and the (B)(4) [redacted] pipeline at the tailgate of the (B)(4) Plant thus first reached the pressure necessary to be marketable at the (B)(4) Booster. Because the gas lost approximately [redacted] f its pressure in transmission to the (B)(4) Plant, Devon had to recompress the gas at the (B)(4) Plant for delivery to the two pipelines. The gas thereby again reached the necessary pressure to be marketable at the (B)(4) Plant. But in general, Devon is not required to condition the production to marketable condition more than once at its own expense.[23] Nor is Devon required to keep the gas at the pressure needed to be in marketable condition throughout the process until it is delivered to the purchaser, where, as here, the gas loses pressure as it moves downstream.

In the instant matter, if the (B)(4) Plant and the connections with the (B)(4) (B)(4) [redacted] and the (B)(4) [redacted] had been located at or near the field, there presumably would have been no [redacted] Booster before the plant. The gas presumably would have been compressed at the plant from approximately the pressure at the outlet of the reciprocating compressors up to the ultimate delivery pressure. Had that been the case, all the compression costs through the tailgate of the plant would have been disallowed.[24] The difference in this case is that the plant is located 115 miles downstream of where gas from (B)(4) (the (B)(4) reciprocating compressor) enters (B)(4) [redacted] 24-inch line, and more than 150 miles from (B)(4) in the (B)(4) [redacted] Field. Thus, if compression is performed to move gas to the plant because the plant is distant from the lease and is not otherwise a necessary component of bringing the gas to the relevant pipeline pressure, the costs of that compression will be allowed as a deduction.

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[23] It may be argued that the provision in the processed gas rule that prohibits deduction of the costs of boosting residue gas at a gas processing plant is an exception to this principle in some circumstances. *See* 30 C.F.R. § 202.151(b) (1988-present); *see also* former 30 C.F.R. § 206.106(b) (1982-1987), formerly codified at 30 C.F.R. § 221.51(b) (1942-1981). Depending on the circumstances, gas could be at the pressure required for it to be in marketable condition before it enters the processing plant. If it were, the lessee nevertheless could not deduct the costs of boosting the residue gas at the plant after processing. In the instant matter, the CO_2 extracted at the (B)(4) Plant is not sold, and Devon consequently cannot claim a processing allowance. In the event that Devon were to sell the CO_2, Devon would then deduct a processing allowance in determining the value of the CO_2 under 30 C.F.R. §§ 206.158-206.159, and, at the same time, the rule discussed here would prohibit Devon from deducting the costs of boosting at the (B)(4) Plant.

[24] Indeed, for gas processing plants that process gas and compress the residue gas for delivery to a pipeline at the tailgate of the plant, MMS does not allow a deduction for those compression costs because of the marketable condition requirement and the corresponding regulation specifically disallowing deductions for the costs of boosting (compressing) residue gas. *See* 30 C.F.R. § 206.202.151(b) (1988-2003).

Under the instant facts, it is clear that Devon may not deduct the costs of both compression at the (B)(4) Booster and compression at the (B)(4) Plant, but at the same time it is not obligated t[redacted] Therefore, MMS will allow the costs of the [redacted]

B. Dehydration

In *California Co. v. Udall*, the gas was dehydrated to a condition suitable to enter buyer's pipeline. The only market for gas was for gas at a certain water content. In *Placid Oil Co., supra*,

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[25] For gas produced from the (B)(4) Fields (excluding the portion delivered to (B)(4)), part of the (B)(4) Booster's compression accounts for the difference in pressure between the outlet of the reciprocating compressors (550-800 psi) and the inlet of the (B)(4) Plant (800 psi). Under this approach, therefore, that part of the (B)(4) Booster's compression is one phase of bringing that gas into marketable condition. But it is not practical (and may not be possible) to attempt to allocate the costs of compression at the (B)(4) Booster between that phase of conditioning and the transportation function to which the majority of the costs of compression at the (B)(4) Booster is attributable under this approach. Allowing all of the costs of the (B)(4) Booster gives Devon a slightly greater transportation allowance than that to which it is technically entitled, but reaches the most practical and fairest result in view of the apparent lack of any practical method to allocate costs of compression at the (B)(4) Booster.

the gas was dehydrated to be put into a condition for delivery to the pipeline. In *R. E. Yarbrough & Co.*, *supra*, the dehydration was necessary for the gas to be marketed in a standard high-pressure pipeline. In *J-W Operating Co.*, similarly, the dehydration was necessary to meet market specifications for water content.

The reaffirmation of the marketable condition rule in the 1988 regulations, and the definition of "gross proceeds" in the 1988 rules, continued the longstanding principles and effected no substantive change from the pre-1988 precedents. Both before and after the 1988 regulations, the lessee's obligation is to dehydrate gas to the water content required for delivery to the pipeline (as necessary for sale under contracts that are typical for the disposition of gas produced from the field or area). In the instant matter, that is the water content required for the (B)(4) (for the gas delivered at (B)(4) and the (B)(4) at the tailgate of the (B)(4) Plant.

Devon has not shown that the dehydration performed after the reciprocating compressors and at the (B)(4) Plant is for anything other than what is required to put the production into marketable condition and what is necessary for it to meet pipeline and purchaser requirements.

(B)(4)
(B)(5)
(B)(7)(e)

Further, Devon has neither shown nor alleged that the instant matter involves any costs of dehydration incurred as part of moving raw gas to a processing plant operating at cryogenic temperatures analogous to those involved in *Exxon Corp.*, 118 IBLA 221 (1991) (discussed above).

For all of the reasons discussed above, Devon may not deduct the costs of dehydration at the reciprocating compressors and the (B)(4) Plant, and may not include these costs in its calculation of actual transportation costs.

C. Gathering

The final issue to be resolved is what movement of the gas under the instant facts constitutes gathering, for which costs are not deductible, and what movement constitutes transportation for which an allowance is calculated.

Under the precedents involving production before 1988, lessees were obligated to move gas to a central point of sales or delivery in the field. (In most cases involving unitized leases, the field would be the unit.) As discussed above, the 1988 rules modified this concept to some degree by defining "gathering" as "the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively." 30 C.F.R. § 206.151. Under this definition, movement to a central treatment point off the lease approved by MMS constitutes gathering, even if that point is not the first point at which any commingling or accumulation occurs. *E.g.*, *Kerr-McGee Corp.*; *Nexen Petroleum U.S.A. Inc.*

The reference in the regulatory definition to "a central accumulation and/or treatment point on the lease, unit or communitized area, or [] a *central accumulation or treatment point off the lease*, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively" relates to the BLM and MMS rules on measurement and commingling. The BLM regulations at 43 C.F.R. §3162.7-3, the provisions relevant to this matter, provide in relevant part:

> All gas production shall be measured by orifice meters or other methods acceptable to the authorized officer on the lease pursuant to methods and procedures prescribed in applicable orders and notices. . . . Off-lease measurement or commingling with production from other sources prior to measurement *may be approved by the authorized officer.*[26]

In the instant matter, BLM has approved the CDPs as the measurement point. Under the definition promulgated in the 1988 rules, movement of the gas to the CDPs and the custody transfer meter constitutes gathering. Movement beyond the *custody transfer meter at the CDPs constitutes* transportation.

That does not mean, however, that the costs of all processes undertaken after the CDPs constitute costs of transportation, because further treatment and conditioning processes may be performed after gathering has been completed. In the instant matter, *those processes include* compression, dehydration and CO_2 removal, as discussed above. The fact that gas has been gathered does not imply that it otherwise is in marketable condition in all respects.

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

[26] MMS' offshore operations regulations include provisions governing approval of measurement procedures (currently codified at 30 C.F.R. § 250.1203(b)(1)) and commingling approvals (currently codified at 30 C.F.R. § 250.1204(a)(1)).

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

Argued February 14, 2005 Decided June 10, 2005

No. 04-5006

AMOCO PRODUCTION COMPANY,
APPELLANT

v.

REBECCA W. WATSON, ASSISTANT SECRETARY FOR LAND AND MINERAL MANAGEMENT, ET AL.,
APPELLEES

Consolidated with
04-5007

Appeals from the United States District Court
for the District of Columbia
(No. 00cv01480)
(No. 00cv02933)

Steven R. Hunsicker argued the cause for appellants. With him on the briefs was *Melissa E. Maxwell.*

Craig L. Stahl was on the brief for *amicus curiae* Burlington Resources, Inc. in support of appellant. *John T. Boese* and *Laura B. Rowe* entered appearances.

John A. Bryson, Attorney, U.S. Department of Justice, argued the cause and filed the brief for appellees. *Ellen J. Durkee*, Attorney, U.S. Department of Justice, entered an appearance.

Patricia A Madrid, Attorney General, Attorney General's Office of the State of New Mexico, *Christopher D. Coppin*, Assistant Attorney General, *Thomas H. Shipps*, *Ken Salazar*, Attorney General, Attorney General's Office of the State of Colorado, *Alan J. Gilbert*, Solicitor General, *Lee Ellen Helfrich*, *Martin Lobel*, *Jill Elise Grant*, *Harry R. Sachse*, and *James E. Glaze* were on the brief for *amici curiae* in support of appellees.

Before: EDWARDS, SENTELLE, and ROBERTS, *Circuit Judges*.

Opinion for the Court filed by *Circuit Judge* ROBERTS.

ROBERTS, *Circuit Judge*: The San Juan Basin covers 7500 square miles in northwest New Mexico and southwest Colorado. Since the end of World War II, it has been a prolific source of natural gas, connected by pipeline to southern California and literally helping to fuel the dramatic growth of that region. Beginning in the 1980s, large-scale extraction of the variety of natural gas known as coalbed methane began to supplement the supply of conventional gas from the region. Coalbed methane contains upwards of ten percent carbon dioxide, which is largely absent from conventional natural gas. Because carbon dioxide does not produce energy, mainline natural gas pipelines will not accept gas with a carbon dioxide component of more than two to three percent of volume. A high carbon dioxide content does not render the natural gas useless for consumers, but if producers in the San Juan Basin want to sell their gas to markets beyond that sparsely populated region, they must use the mainline and meet its more stringent carbon dioxide standard.

The federal government is a large landowner in the San Juan Basin and, like many other owners of property rich in natural gas, it leases rights to extract the gas in exchange for a percentage of the proceeds. Unlike the case with other landowners, however, the relationship between the government and those who extract gas from the government's land is regulated pursuant to an elaborate array of statutes and rules. The present case involves several disputes between the government and gas producers over how the need to remove the excess carbon dioxide from coalbed methane, to make it palatable to the mainline pipelines, affects the royalty payment the producers owe the government under those statutes and regulations. For the reasons that follow, we affirm the district court's decision and uphold the government's determination that the producers owe additional royalties.

I. Background

Statutory and Regulatory Framework. The Department of the Interior (DOI), through its Minerals Management Service (MMS), issues and administers leases authorizing the extraction of natural gas from government land. The Mineral Leasing Act (MLA), 30 U.S.C. §§ 181 *et seq.* (2000), requires producer-lessees to pay the government-lessor "a royalty at a rate of not less than 12.5 percent in amount or value of the production removed or sold from the lease." *Id.* § 226(b)(1)(a). To ensure the government gets its due in royalties, the Secretary of the Interior is directed by statute to establish a comprehensive inspection, auditing, and collection system. *See id.* § 1711.

In 1988, pursuant to these statutes, MMS "amended and clarified" the rules "governing valuation of gas for royalty computation purposes." Revision of Gas Royalty Valuation Regulations and Related Topics, 53 Fed. Reg. 1230 (Jan. 15, 1988). Under these new regulations, MMS specified that the "value of the production" referred to in 30 U.S.C. § 226(b)(1)(A) must be no less than "the gross proceeds

accruing to the lessee for lease production," minus certain allowable deductions. 30 C.F.R. § 206.152(h) (1988). A factor in calculating these "gross proceeds" is a longstanding interpretation of the MLA that obligates lessees to put the gas they extract in "marketable condition at no cost to" the federal lessor. *Id.* § 206.152(i); *see California Co. v. Udall*, 296 F.2d 384, 387–88 (D.C. Cir. 1961) (upholding marketable condition requirement). Under the 1988 regulations, lease products are considered in marketable condition if they "are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151. If a lessee sells "unmarketable" gas at a lower cost, the gross proceeds for purposes of royalty calculation must be "increased to the extent that gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. *Id.* § 206.152(i). To take a simple example, if it costs $20 to put gas in marketable condition by removing impurities, and the purified gas is sold for $100, "gross proceeds" for purposes of royalty calculations is $100, regardless of whether the producer removes the impurities and sells the gas for $100, or instead sells the gas for $80 to a purchaser who then removes the impurities.

The regulations allow lessees to deduct from gross proceeds costs directly related to transporting gas from the wellhead for sale at markets remote from the lease. *See id.* § 206.157(a)–(b). The government's generosity with respect to this deduction, however, goes only so far — absent approval from MMS, a lessee is not allowed to deduct the costs of transporting non-royalty bearing products. *See id.* § 206.157(a)(2)(i), (b)(3)(i). In other words, to the extent the government is not going to share in the proceeds of the producers' distant sale, because some of the product is non-royalty bearing, the government does not in effect share in the cost of transporting that portion of the product by having that cost deducted from "gross proceeds."

There is an exception to this logic: a portion of the product may fall into a category known as "waste products which have no value." *Id.* § 206.157(a)(2)(i), (b)(3)(i). Although it may at first seem counterintuitive, the government allows a deduction for the cost of transporting such waste products, because such transport is considered part of the cost of transporting the royalty-bearing product with which the waste products are associated.

Facts and Rulings Below. Producers Amoco Production Company (Amoco) and Atlantic Richfield Company and Vastar Resources, Inc. (ARCO/Vastar) produce coalbed methane on public land in the San Juan Basin pursuant to leases with the federal government. To make the coalbed methane suitable for transportation over mainline pipelines, the producers arranged for the removal of excess carbon dioxide from most of the gas they extracted. Between 1989 and 1996, the producers sold untreated gas at the wellhead to purchasers who would pipe the gas to treatment centers, remove the excess carbon dioxide, and then put the treated gas on the mainline system for transport and sale to end-users throughout the country. The producers' sales arrangements differed; Amoco would sell untreated gas primarily to a wholly-owned trading subsidiary and ARCO/Vastar would contract arms-length sales with unaffiliated purchasers. Nevertheless, the economics of the transactions were the same, with the price of untreated gas at the wellhead reflecting the fact that the purchaser would have to transport the gas to treatment plants and remove the excess carbon dioxide before sending the gas into the mainline.

On April 22, 1996, MMS issued a letter to lease operators and royalty payors in the San Juan Basin laying out the Service's "guidelines" for calculating royalties on coalbed methane. Payor Letter, at 1. The Payor Letter informed the producers that removing excess carbon dioxide was considered a cost of placing the gas in marketable condition. Consequently, produc-

ers who removed the gas themselves could not deduct the cost of doing so from gross proceeds, and those selling untreated gas at a lower price nevertheless needed to add back to gross proceeds the cost of removal services performed by the purchaser. *See id.* at 1–2. The letter also addressed transportation allowances, specifying that producers could deduct the costs of piping the methane and the allowable two to three percent portion of carbon dioxide to the treatment center, but not the cost of transporting the excess carbon dioxide to be removed at the center. In the government's view, that excess constituted a non-royalty bearing product under the regulations. *See id.* at 2–3.

On the heels of the Payor Letter, MMS issued separate orders finding Amoco and ARCO/Vastar deficient in their royalty payments for the period between 1989 and 1996. This shortfall stemmed from the producers' accounting for sales of raw coalbed methane that was later treated and marketed on the mainline by its purchasers. In calculating gross proceeds, the producers did not add back the costs incurred by the purchasers in moving the excess carbon dioxide to the treatment plant and removing it once there. Instead, they calculated gross proceeds the same way they did for sales of coalbed methane used in untreated form by local purchasers. MMS thus concluded that Amoco and ARCO/Vastar owed the government additional royalties totaling $4,117,607 and $782,373, respectively. The producers did not have to add back to gross proceeds the cost of transporting royalty-bearing methane and the allowable three percent carbon dioxide "waste product" — because this cost was deductible in the government's view — and the orders did not assess any additional royalties on sales of gas consumed without treatment.

In separate challenges to these orders before the Assistant Secretary for Land and Minerals Management, the producers argued that untreated gas at the wellhead was already in

marketable condition — after all, they sold a fair amount of it in that form, and it was used without treatment — so there was no reason to augment their gross proceeds for royalty calculation purposes. They also argued that the cost of piping the excess carbon dioxide to the treatment plant should be viewed as a deductible transportation cost, not a cost of putting the gas in marketable condition. In the alternative, the producers contended that, under the transportation regulations, the excess carbon dioxide piped to the treatment plants should be regarded as a "waste product." The Assistant Secretary rejected these challenges and also concluded — contrary to the producers' contentions — that the Payor Letter was not a rule, and so was not subject to the Administrative Procedure Act's notice and comment requirement. *See* 5 U.S.C. § 553. The Assistant Secretary also rejected the producers' argument that collection of the royalties was barred by the six-year statute of limitations for government actions for money damages found in 28 U.S.C. § 2415.

In the District Court for the District of Columbia, the producers sought a declaratory judgment and injunction against enforcement of the MMS orders. On cross-motions for summary judgment, the district court ruled for the government. *See Amoco Production Co. v. Baca*, 300 F. Supp. 2d 1 (D.D.C. 2003). Amoco and ARCO/Vastar appeal.

II.

We review the district court decision *de novo*, *Fina Oil & Chem. Co. v. Norton*, 332 F.3d 672, 675–76 (D.C. Cir. 2003), and will reverse the Assistant Secretary's rulings only if they are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law," or if they are "in excess of statutory jurisdiction, authority, or limitations, or short of statutory right." 5 U.S.C. § 706(2)(A), (C); *Gerber v. Norton*, 294 F.3d 173, 178 (D.C. Cir. 2002).

A. We first turn to the producers' argument that the Assistant Secretary's application of the marketable condition rule violates the MLA. The Assistant Secretary concluded that "the value for royalty purposes must be determined by adding to the gross proceeds received from the wellhead purchaser the cost of treating the gas . . . to the level required to place the gas in marketable condition." MMS Decision of Sept. 12, 2000 (Amoco Decision) at 10 [J.A. 11]; MMS Decision of Mar. 24, 2000 (ARCO/Vastar Decision) at 6. The producers contend this conclusion cannot be squared with the statutory provision requiring producers to pay royalties based on the "amount or value of the production removed or sold *from the lease*." 30 U.S.C. § 226(b)(1)(A) (emphasis added). The producers read the underscored phrase as requiring that the physical leasehold be treated as the relevant geographic market, precluding calculation of royalties based on gross proceeds derived from sales remote from the wellhead.

We review the agency's interpretation of the MLA, a statute DOI administers, within the framework of *Chevron, U.S.A., Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984). *See Indep. Petroleum Ass'n of Am. v. DeWitt*, 279 F.3d 1036, 1039–40 (D.C. Cir. 2002) ("*IPAA*"). Under the first step of *Chevron*, we inquire whether Congress has spoken directly to the question at issue. 487 U.S. at 842. If so, we give effect to that clearly expressed intent. If instead the statute is "silent or ambiguous with respect to the specific issue," we defer to the agency interpretation, so long as it is reasonable. *Id.* at 842–43.

Although the producers present a textually plausible reading of section 226, theirs is not the only one available. The phrase "from the lease" is sufficiently broad to be read as referring simply to the origin of the gas. Gas that is "from the lease" and that is marketed at a remote location can readily be described as gas "removed or sold from the lease." The producers read the statute as if it referred to gas "sold *at* the lease," but that is not

the case. They direct us to no precedent limiting marketable condition to their narrowing construction. Although they observe that this court in *California Co.* applied the marketable condition rule to sales of treated gas near the wellhead, that is of little help to them; *all* the gas at issue there "was conditioned by the seller and delivered to the purchaser within a short distance of the wells," 296 F.2d at 387, so the question presented here did not arise.

The producers' reliance on our more recent decision in *IPAA* is also misplaced. They direct to us to a portion of the opinion observing that DOI "abide[s] by the statutory mandate to base royalty on the 'value of the production removed or sold from the lease,' " 279 F.3d at 1037 (quoting 30 U.S.C. § 226(b)(1)(A)), but the cited dictum does not even interpret "from the lease," let alone do so authoritatively. If anything, *IPAA* was skeptical of the producers' "almost metaphysical" proposition "that the sale of 'marketable condition' gas at the leasehold represent[ed] a baseline" beyond which the government had to share any costs incurred further down the line. *Id.* at 1041.

Because the Assistant Secretary has not interpreted the statute in a manner contrary to clear congressional intent, the next step is to ask whether her construction is a reasonable one. *See Chevron*, 487 U.S. at 843. The producers do not, however, appear to marshal a step two argument. Consequently, we have no basis for finding the Assistant Secretary's interpretation unreasonable. *See Consumer Elec. Ass'n v. FCC*, 347 F.3d 291, 299 (D.C. Cir. 2003).

B. The producers also contend that the Assistant Secretary acted arbitrarily and capriciously by misinterpreting the MLA regulations and departing from agency precedent. Although we will not allow an agency to "rewrit[e] regulations under the guise of interpreting them," *Fina Oil*, 332 F.3d at 676, we nevertheless owe "substantial deference to an agency's interpre-

tation of its own regulations," giving that interpretation "controlling weight unless it is plainly erroneous or inconsistent with the regulation," *Thomas Jefferson Univ. v. Shalala*, 512 U.S. 504, 512 (1994) (internal quotation marks omitted). Such deference is particularly appropriate in the context of " 'a complex and highly technical regulatory program,' in which the identification and classification of relevant 'criteria necessarily require significant expertise and entail the exercise of judgment grounded in policy concerns.' " *Id.* (quoting *Pauley v. BethEnergy Mines, Inc.*, 501 U.S. 680, 697 (1991)).

The producers argue that the DOI regulation defining gas in "marketable condition" as gas acceptable to "a purchaser under a sales contract typical for the field or area," 30 C.F.R. § 206.151, requires MMS to consider untreated gas sold at the wellhead to be in marketable condition, notwithstanding any later off-lease treatment. The Assistant Secretary concluded, however, that because the "dominant market for gas from the area is for gas that is utilized in distant markets with a much lower CO_2 content," sales contracts for *treated* gas were typical for the area, while those for untreated gas were not. Amoco Decision at 7; *see also* ARCO/Vastar Decision at 5. Although the producers concede that most of the gas purchased at their leaseholds is treated for use in downstream markets, they argue that the Assistant Secretary's "dominant end-use" rationale is irreconcilable with the text of section 206.151 of the regulations, which frames typicality in terms of a given "field or area."

We are not persuaded, however, that the regulations require MMS to understand typical sales contracts — and thus marketable condition — as relating to transactions at the leasehold or immediately nearby. As an initial matter, it is not even clear that "field or area" — the textual hook for the producers' interpretation — refers only to leasehold land. The regulations define "area" as "a geographic region *at least as large* as the defined limits of [a] gas field, in which . . . gas lease products

have similar quality, economic, and legal characteristics," and define "field" as "a geographic region situated over one or more subsurface . . . gas reservoirs encompassing *at least* the outermost boundaries of all . . . gas accumulations." 30 C.F.R. § 206.151 (emphases added). Because these terms do not foreclose the possibility of defining a region beyond the geographical limits of a leasehold, we are hesitant to conclude that the Assistant Secretary's interpretation failed to "sensibly conform[] to the purpose and wording of the regulations." *Martin v. Occupational Safety and Health Review Comm'n*, 499 U.S. 144, 151 (1991) (internal quotation marks omitted).

The producers' construction also does not square with the regulatory scheme as a whole. The regulation stipulating that producers are to place gas in marketable condition at no cost to the government does not contain a geographic limit. *See* 30 C.F.R. § 206.152(i). More importantly, regulations governing transportation allowances obviously assume that valuation of gas "at a point (e.g., sales point or point of value determination) off the lease" is permissible. *Id.* § 206.156(a). The Assistant Secretary's approach to the marketable condition rule is entirely consistent with this regulatory scheme and the basic principle that the MLA contemplates a meaningful distinction between marketing and merely selling gas. *See California Co.*, 296 F.2d at 388.

The Assistant Secretary's approach to marketable condition should not have surprised the producers. When soliciting comments for the 1988 rulemaking that led to reiteration of the marketable condition rule in regulation 206.152, the agency entertained suggestions from producers that the government lessor should share treatment costs, by allowing producers to deduct all post-production costs under the theory that royalties are "due on the market value of production at the lease or well." 53 Fed. Reg. at 1252. Otherwise, industry commentators argued, MMS would "improperly sweep[] all post-production

operations under the holding of [*California Co.*]." *Id.* MMS considered but rejected this suggestion, concluding that "so-called post-production costs . . . [g]enerally . . . are not allowed as a deduction because they are necessary to make production marketable." *Id.* at 1253.

The producers alternatively contend that, because there is an established demand for untreated gas, sales of such gas at the wellhead should be treated as "typical" for defining marketable condition. It is true that fifteen to twenty percent of the gas purchased from the producers was consumed locally, and it is plausible to conclude that contracts for one-fifth of a product are common enough to be "typical." But it is just as plausible to read typicality as embracing the *most* common use and sale of gas from the area, and it is not at all obvious from the text and purposes of the regulations that contracts for one-fifth of the gas should govern the regulatory treatment of the remaining eighty percent.

Finally, we disagree with the producers' argument that the Assistant Secretary impermissibly departed from agency precedent. In *Xeno, Inc.*, the agency concluded gas was in marketable condition at the wellhead based on evidence of competing purchase offers there. 134 I.B.L.A. 172, 180–84 (1975). Central to *Xeno*, however, was the fact that the gas was suitable for pipeline access *before* gathering and compression, a quality reflected in its price at the wellhead. *See id.*; *see also Amerada Hess Corp. v. Dep't of Interior*, 170 F.3d 1032, 1037 (10th Cir. 1999) (distinguishing Xeno when a producer had not shown gas was in marketable condition at the wellhead).

Nor is *Beartooth Oil & Gas Co. v. Lujan*, No. 92-99 (D. Mont. Sept. 22, 1993), to the contrary. *Beartooth* overruled a decision that, in assessing royalties on wellhead sales, included the value of subsequent compression and delivery by a purchaser. Even if this unpublished district court opinion — withdrawn after a settlement — bound MMS, it is readily

distinguishable. The *Beartooth* court ruled for the producer not because the court was certain the gas was in marketable condition at the wellhead, but rather because the agency did not make findings supporting the assertion that the gas was not. *See Beartooth* at 9–10. Here, the Assistant Secretary explained in detail why the gas was not in marketable condition at the wellhead. *See* Amoco Decision at 9–11; ARCO/Vastar Decision at 6–7.

III.

The Assistant Secretary allowed the producers to deduct from gross proceeds the costs of transporting the royalty-bearing methane and the three percent carbon dioxide "waste product" to the treatment plant, but not the costs of transporting and removing the excess carbon dioxide. The producers argue that some or all of the costs of ridding the gas of excess carbon dioxide should be deductible from gross proceeds as a cost of transporting the gas to market under 30 C.F.R. § 206.157(a)–(b).

+ 3% CO_2 waste product

To argue that all the extra costs are deductible, the producers liken these expenses to "firm demand" charges — nonrefundable deposit payments required to reserve pipeline capacity. DOI argued that such charges were not related to transportation in *IPAA*, but we did not accept DOI's argument. *See* 279 F.3d at 1042 ("While some reason may lurk behind the government's position, it has offered none, and we have no basis for sustaining its conclusion."). The producers contend that, like firm demand charges, the costs at issue here are necessary to secure access to a mainline system that will not accept gas with a carbon dioxide content of more than two or three percent. In support of their argument, they also cite two other cases purportedly regarding pre-pipeline treatment as a transportation cost: *Exxon Corp.*, 118 I.B.L.A. 221 (1991) and *Marathon Oil Co. v. United States*, 604 F. Supp. 1375 (D. Alaska 1985).

Unlike the case in *IPAA*, however, here the Assistant Secretary has explained why the costs at issue are not properly considered transportation costs: because removal of the excess carbon dioxide was necessary to place the gas in marketable condition, those same costs could not be part of the transportation allowance. The logic of the regulations bars an expenditure to place gas in marketable condition from also being an expenditure deductible from gross proceeds as a transportation cost. *See* 30 C.F.R. § 206.152(i) (lessees must "place gas in marketable condition at no cost to the Federal Government"). Because we uphold the Assistant Secretary's conclusion that these costs are necessary to place the gas in marketable condition, we cannot quarrel with her rejection of the producers' transportation theory. Unsurprisingly, none of the cases the producers cite deals with deducting costs necessary for placing gas in marketable condition. The firm demand charges to reserve space on the pipeline at issue in *IPAA*, for example, related solely to transportation and had nothing to do with conditioning the gas for market. *See IPAA*, 279 F.3d at 1042; *see also Marathon Oil*, 604 F. Supp. at 1386 (costs of liquefying natural gas deductible because done "for purposes of storage or shipment" and end-product "chemically identical to the natural gas at the lease"); *Exxon Co.*, 118 I.B.L.A. at 242 (deductible dehydration of gas "was not performed to satisfy market specifications").

Seeking at least half a loaf, the producers argue the Assistant Secretary erred in treating the excess carbon dioxide (the amount beyond the pipeline threshold) as a non-royalty-bearing product, whose transportation cost is nondeductible. The producers contend that the carbon dioxide in excess of the pipeline tolerance should have been treated the same as that within the tolerance — as a waste product — with the result that the deductible transportation cost would not be reduced by the cost of transporting any of the carbon dioxide.

Although carbon dioxide is carbon dioxide, there is a meaningful distinction in the regulation between the amount that may be marketed along with the gas, and the excess that must be removed to make the gas marketable. The two *amounts* need not be treated the same under the rules, simply because they are the same *product*. Within the pipeline tolerance, carbon dioxide is a waste product because it need not be removed to place the gas in marketable condition; beyond the tolerance, the carbon dioxide is a non-royalty-bearing product that must be removed for the gas to considered marketable under the rules. This difference has the consequence ascribed by the Secretary when it comes to determining the deductibility of transportation costs.

The producers rely on an illustrative example in the MMS-issued Payor Handbook that treats carbon dioxide in a manner suggesting it is waste. This example — which does not purport to be a rule and concerns a carbon dioxide content of only one percent, *see* 3 MINERALS MGMT. SERV., U.S. DEP'T OF THE INTERIOR, OIL & GAS PAYOR HANDBOOK § 6.4.1 (1993) — hardly compels the agency to treat a ten percent component of carbon dioxide as waste, let alone creates an inference that carbon dioxide is always waste.

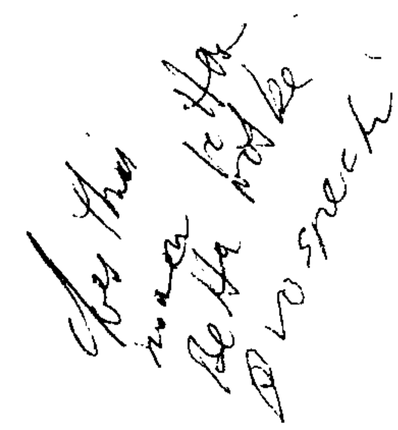
IV.

The producers also challenge the Payor Letter cited in the orders and in the Assistant Secretary's decisions, arguing that it constituted a new rule the agency could promulgate only through notice and comment rulemaking. *See* 5 U.S.C. § 551(4) (defining a rule as "the whole or part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure or practice requirements of an agency"). Rejecting the Assistant Secretary's explanation that the Payor Letter was merely an interpretation of existing regulations, the producers ask us to set it aside and consider the Assistant Secretary's reliance upon it unlawful because the agency did not

promulgate the rule as required by the Administrative Procedure Act. *See id.* § 553(b)(3)(A).

This challenge is governed by *Indep. Petroleum Ass'n of Am. v. Babbitt*, which held that a similar MMS letter was not a rule subject to the notice and comment requirement. 92 F.3d 1248, 1256–57 (D.C. Cir. 1996). As in *Babbitt*, the Payor Letter here is not an agency statement with future effect because nothing under DOI regulations vests the Letter's author — in *Babbitt* and this case MMS's Associate Director for Royalty Management — with the authority to announce rules binding on DOI. *Id.* at 1256. "The letter is not an agency rule at all, legislative *or* otherwise, because it does not purport to, nor is it capable of, binding the agency." *Id.* at 1257.

The producers attempt to distinguish *Babbitt* by alleging that here the agency adopted the Payor Letter's positions when it issued and affirmed the orders. But nothing in the decisions under review suggests that the agency viewed the Payor Letter as authoritative or binding; the agency in those decisions applied the pertinent statutes and regulations with no determinative reliance on the Payor Letter. The agency decisions reached the same result as the guidance in the Payor Letter, but that was true in *Babbitt* as well. The sort of "workaday advice letter[s] that agencies prepare countless times per year in dealing with the regulated community," *Indep. Equip. Dealers Ass'n v. EPA*, 372 F.3d 420, 427 (D.C. Cir. 2004) (internal quotation marks omitted), do not retroactively become agency rules whenever they are referenced in an agency decision.



V.

Finally, the producers argue that the district court and the Assistant Secretary erred in concluding that the MMS orders assessing additional royalties were not barred by the statute of

limitations found at 28 U.S.C. § 2415(a).[1] That provision specifies that

> [E]very action for money damages brought by the United States or an officer or agency thereof which is founded upon any contract express or implied in law or fact, shall be barred unless the complaint is filed within six years after the right of action accrues or within one year after final decisions have been rendered in applicable administrative proceedings required by contract or by law, whichever is later.

The threshold question is whether an administrative order assessing additional royalties can reasonably be understood to be an "action for money damages" initiated by the filing of a "complaint." The phrase "action for money damages" points strongly to a suit in a court of law, rather than an agency enforcement order that happens to concern money due under a statutory scheme. *See* BLACK'S LAW DICTIONARY 389 (6th ed. 1990) (defining "damages" as "pecuniary compensation or indemnity, which may be recovered in the courts"); *OXY USA, Inc. v. Babbitt*, 268 F.3d 1001, 1010 (10th Cir. 2001) (en banc) (Briscoe, J., dissenting) ("Taken together, the entire phrase plainly and indisputably refers to lawsuits brought by the federal government seeking compensatory relief for losses suffered by the government.").

Any doubt is removed by the fact that subsection 2415(a) measures the limitations period from the filing of a "complaint." It strains legal language to construe this administrative compli-

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[1] The dispute about the applicability of 28 U.S.C. § 2415(a) to demands for additional royalties is no longer a live one with respect to production after September 1, 1996, for which Congress has set a seven-year limitations period. *See* Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, Pub. L. No. 104-185, 110 Stat. 1700 (codified at 30 U.S.C. § 1724).

ance order as a "complaint" for money damages in any ordinary sense of the term. *See* BLACK'S LAW DICTIONARY 285 (6th ed. 1990) (defining complaint as an "initial pleading" under "codes or Rules of Civil Procedure" that contains, *inter alia*, a "statement of the grounds upon which the *court's* jurisdiction depends") (emphasis added). Although some statutes provide for a "complaint" that triggers administrative proceedings, *see, e.g.*, 5 U.S.C. § 1215(a)(1); 15 U.S.C. §§ 45(b), 522; 25 U.S.C. § 2713(a)(3); 29 U.S.C. § 160(b), adjudicative hearings on the merits follow such filings. Here MMS issued an *order*, the defiance of which incurs a "Notice of Noncompliance" and subsequent civil penalties, absent a successful appeal. *See* 30 C.F.R. § 241.51 (1996); *see also* BLACK'S LAW DICTIONARY 1096 (6th ed. 1990) (defining order as "[a] mandate; precept; command or direction authoritatively given; rule or regulation").

While we are satisfied from the text of subsection 2415(a) that the agency action at issue here does not fall under the clause's purview, the statute as a whole is admittedly less clear. One of the statute's enumerated exceptions — added more than 16 years after the passage of the original Act, *see* Debt Collection Act of 1982, Pub. L. No. 97-365, § 9, 96 Stat. 1749, 1754 — states that "[t]he provisions of this section shall not prevent the United States or an officer or agency thereof from collecting any claim of the United States by means of administrative offset, in accordance with section 3716 of title 31." 28 U.S.C. § 2415(i). The producers contend that subsection 2415(a) must apply to administrative proceedings generally, or there would have been no need to except administrative offsets in subsection (i).

This argument is not without force. It is a familiar canon of statutory construction that, "if possible," we are to construe a statute so as to give effect to "every clause and word," *United States v. Menasche*, 348 U.S. 528, 538–39 (1955) (internal quotation marks omitted), and the producers' argument has

helped convince two other circuits that subsection 2415(a) can apply to other administrative proceedings, *see OXY USA*, 268 F.3d at 1006; *United States v. Hanover Ins. Co.*, 82 F.3d 1052, 1055 (Fed. Cir. 1996). In this case, however, the inference to be drawn from the addition of subsection 2415(i) does not dissuade us from the more natural reading of the express language of subsection 2415(a). As the Supreme Court recently explained, "our preference for avoiding surplusage constructions is not absolute." *Lamie v. U.S. Trustee*, 124 S. Ct. 1023, 1031 (2004). *See Chickasaw Nation v. United States*, 534 U.S. 84, 89 (2001) (adopting construction that leads to surplusage because "we can find no other reasonable reading of the statute"). No canon of construction justifies construing the actual statutory language beyond what the terms can reasonably bear. *See Conn. Nat'l Bank v. Germain*, 503 U.S. 249, 252–53 (1992).

The context surrounding the passage of subsection 2415(i) gives us some comfort that the provision is not so much surplusage as the result of a congressional effort to moot a debate between the Justice Department and the Comptroller General about the reach of subsection 2415(a) in the context of administrative offsets. The Justice Department thought subsection 2415(a) might be invoked to bar administrative offsets; the Comptroller General concluded that it was not applicable in that context. The Comptroller General nevertheless recommended that Congress enact subsection 2415(i) "as a means of resolving the differences between us." *Debt Collection Act of 1981: Hearings on S. 1249 before the Senate Committee on Governmental Affairs*, 97th Cong. 83 (1981) (statement of Milton J. Socolar, Acting Comptroller General). "By adopting section 2415(i), Congress thus did not have to decide whether the Department of Justice or the Comptroller General had the better of the argument as to the proper construction of the pre-1982 version of section 2415." *Hanover Ins. Co.*, 82 F.3d at 1057 (Bryson, J., dissenting). We think it clear that subsection 2415(a), by its terms, does not cover administrative actions, and

the fact that Congress "sought to make [the] statute crystal clear rather than just clear" in the context of administrative offsets does not alter our conclusion. *In re Collins*, 170 F.3d 512, 513 (5th Cir. 1999).

Finally, buttressing our conclusion not to let subsection 2415(i) alter the clear import of 2415(a) is the opposing canon (there always seems to be one) that statutes of limitations against the sovereign are to be strictly construed. *See E.I. du Pont de Nemours & Co. v. Davis*, 264 U.S. 456, 462 (1924); *Hanover Ins. Co.*, 82 F.3d at 1057 (Bryson, J., dissenting). Expanding the apparent scope of a statute of limitations beyond its plain language by inference from an express exception is hardly strict construction. Similar concerns helped dissuade the Supreme Court from relying on the surplusage canon in *Chickasaw Nation*. *See* 534 U.S. at 90 (application of surplusage canon would contravene rule that Congress ordinarily enacts tax exemptions explicitly).

Although other courts addressing this question have emphasized the underlying purpose of repose animating section 2415, *see OXY USA*, 268 F.3d at 1005–06; *Hanover Ins. Co.*, 82 F.3d at 1055, the Supreme Court has frequently warned that such appeals to purpose cannot override a statute's clear language, *see, e.g.*, *Badaracco v. Comm'r of Internal Revenue*, 464 U.S. 386, 398 (1984) ("Courts are not authorized to rewrite a statute because they might deem its effects susceptible of improvement. This is especially so when courts construe a statute of limitations, which must receive a strict construction in favor of the Government.") (internal quotation marks and citation omitted). Consequently, we join the Fifth Circuit, *see Phillips Petroleum Co. v. Johnson*, No. 93-1377 (5th Cir. Sept. 7, 1994), in concluding that the statute of limitations in subsection 2415(a) does not apply to bar an administrative order demanding payment owed pursuant to the MLA and its regulations.

Because we conclude that the government's demand for additional royalties is not an action for money damages initiated by the filing of a complaint, we do not need to address the government's further arguments that the demand neither seeks "money damages" nor is "founded upon a contract." 28 U.S.C. § 2415(a).

The judgment of the district court is

Affirmed.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

AMOCO PRODUCTION COMPANY, Plaintiff, v. **SYLVIA V. BACA**, et. al., Defendants.	Civil Action No. 00-02933 (WBB)
VASTAR RESOURCES, INC. and **ATLANTIC RICHFIELD COMPANY,** Plaintiffs, v. **SYLVIA V. BACA**, et. al., Defendants.	Civil Action No. 00-01480 (WBB)

MEMORANDUM

Plaintiffs, Amoco Production Company ("Amoco") and Atlantic Richfield Company and Vastar Resources ("ARCO/Vastar"), individually filed complaints seeking a declaratory judgment and injunction against Defendants, the United States Department of the Interior ("DOI"), its Secretary Bruce Babbit, and its Assistant Secretary Sylvia Baca.[1] Plaintiffs seek to enjoin DOI decisions relating to the determination of royalties due on the production of coalbed

[1] After taking office, Secretary Gale Norton was substituted for Bruce Babbit and Assistant Secretary Wallace P. deWitt was substituted for Sylvia V. Baca.

methane gas produced by Plaintiffs from certain federal leases.

Currently before the Court are the parties' Motions for Summary Judgment. Plaintiffs ask the Court to declare the DOI decisions invalid and unlawful and to enjoin the DOI from implementing or enforcing its decisions. Defendants oppose Plaintiffs' motions and argue that they are entitled to judgment as a matter of law. Also before the Court is an amicus brief filed by the Southern Ute Indian Tribe ("Tribe") in support of Defendants.

BACKGROUND

Plaintiffs, Amoco and ARCO/Vastar produce coalbed methane gas as lessees under federal oil and gas mineral leases in the San Juan Basin of northwestern New Mexico. The Minerals Leasing Act ("MLA") governs the terms of federal oil and gas leases, including the leases involved in this case. 30 U.S.C. §§ 181-287 (2003). The MLA was intended by Congress to "promote wise development of [] natural resources and to obtain for the public a reasonable financial return on assets that 'belong' to the public." California Co. v. Udall, 296 F.2d 384, 388 (D.C. Cir. 1961). In return for the privilege of producing coalbed methane gas on federal land, the MLA requires lessees to pay royalties based on the value of the production.

Coalbed methane gas, such as that produced by Plaintiffs, differs from conventional natural gas in that it contains significantly higher levels of carbon dioxide (CO_2). CO_2 reduces the value per unit of volume of natural gas because it has no energy value. As a result, CO_2 is generally removed from the gas after it is extracted and gas transportation pipelines typically have quality specifications limiting the amount of CO_2 allowed in the gas stream. In some instances, CO_2 is recovered after removal and sold as a separate product, however that is not the case here.

On April 22, 1996, the Associate Director for Royalty Management, MMS, issued a letter to producers of coalbed methane gas ("Dear Operator Letter") containing guidelines for calculating the proper payment of royalties and correct reporting of production. The letter responded to questions received by MMS from producers operating in the vicinity of New Mexico's San Juan Basin, a group of producers that includes Plaintiffs. The guidelines contained in the Dear Operator Letter apply specifically to circumstances in which CO_2 is removed from coalbed methane gas and vented into the air rather than being processed and sold as a separate product.

The Dear Operator Letter echoed internal guidelines contained in a December 7, 1995 MMS memorandum ("December Memorandum") that also addressed the valuation of coalbed methane gas production. The December Memorandum in turn was issued following a November 2, 1995 meeting of the MMS Royalty Policy Board during which interested parties, including producers, offered alternative valuation and reporting methods for coalbed methane. The valuation policy set forth in the December Memorandum was a modified version of that presented by the MMS and the State of New Mexico during the November meeting.

On May 22, 1996, ARCO/Vastar appealed the guidelines contained in the Dear Operator Letter, but the appeal was returned because the letter itself was not a final decision of the MMS Director. MMS advised ARCO/Vastar that an appeal would be appropriate in the event lessees were ordered to take action to correct any noncompliance with the letter's guidelines. Subsequently, the State of New Mexico audited both Plaintiffs' production and royalty reporting and determined that, in fact, ARCO/Vastar and Amoco were not in compliance with the guidelines contained in the Dear Operator Letter. Based on the results of the New Mexico audit,

the MMS issued the decision and orders that form the basis of Plaintiffs' Complaints.

ARCO/Vastar's Complaint

ARCO/Vastar appeals the consolidated decision of Assistant Secretary Sylvia V. Baca issued on March 24, 2000 ("ARCO/Vastar Decision"), which largely affirmed two decisions of the MMS relating to the calculation of royalties due on the sale of coalbed methane gas produced from federal leases held by ARCO/Vastar. The first decision was an MMS order issued on January 22, 1997 ("January Order") finding that ARCO/Vastar incorrectly calculated the royalties due on sales between 1989 and 1996. Upon review of deductions allowable under applicable regulations and the guidelines contained in the December Memorandum, the MMS determined that ARCO/Vastar erroneously took deductions for certain transportation and processing costs related to the transportation and removal of CO_2. As a result, the January Order directed ARCO/Vastar to pay past due royalties of $782,373, to recalculate the royalties due on certain leases in the San Juan Basin during the audit period, and to pay any additional royalties found to be due. The January Order further stated that late payment interest would be calculated and assessed pursuant to 30 C.F.R. § 218.102 (1996) upon receipt of any additional royalties due.

The second decision addressed by the ARCO/Vastar Decision was a decision by the MMS Royalty Valuation Board ("RVD Decision") issued on July 14, 1997 which denied a request for an extraordinary processing cost allowance. ARCO/Vastar had requested approval for an extraordinary processing cost allowance for the costs of removing CO_2 from coalbed methane gas produced from a federal lease and treated at a particular treatment facility. Based on applicable regulations, the December Memorandum and the Dear Operator Letter, the Royalty Valuation Board rejected ARCO/Vastar's argument that the composition of the gas stream, plant

design and associated costs justified the requested allowance.

Because the January Order and the RVD Decision raised overlapping issues related to the definition of marketable condition and extraordinary processing costs, the Assistant Secretary consolidated ARCO/Vastar's appeals of the two decisions. The ARCO/Vastar Decision largely upheld both the January Order and the RVD Decision and addressed four issues: (1) whether the cost of CO_2 removal is necessary to place the gas in marketable condition or allowable as an extraordinary processing cost allowance; (2) whether costs incurred to transport the coalbed methane gas are deductible; (3) whether the April 22, 1996 Dear Operator Letter violates the Administrative Procedure Act; and, (4) whether late payment interest is applicable to royalties deemed deficient for prior periods.

Amoco's Complaint

Amoco appeals the Assistant Secretary's decision of September 12, 2000 ("Amoco Decision"), which denied (with slight modifications) Amoco's appeal of a May 27, 2000 MMS Order ("May Order") directing Amoco to pay additional royalties of $4,117,607, to conduct a restructured accounting of certain federal and Indian leases, and to pay any additional royalties found to be due. The Assistant Secretary addressed four issues in the Amoco Decision: (1) whether CO_2 removal is necessary to place the gas at issue in marketable condition; (2) whether the costs of transporting excess CO_2 is deductible when coalbed gas is treated away from the lease; (3) whether the April 22, 1996 Dear Operator Letter violates the Administrative Procedure Act; and, (4) whether MMS can collect royalties that become due more than six years before the date of the order to pay.

Since ARCO/Vastar and Amoco's appeals raise common issues their Motions for

Summary Judgment were consolidated for briefing purposes. Plaintiffs argue that the guidelines contained in the Dear Operator Letter are invalid because the letter violates the Administrative Procedure Act. They further argue that CO_2 removal is not necessary to place coalbed methane gas in marketable condition and that they are entitled to transportation allowances for transporting CO_2 from the wellhead to treatment facilities where CO_2 is removed. Plaintiffs additionally assert separate claims. ARCO/Vastar argues that it is entitled to an allowance for extraordinary processing costs and that DOI improperly assessed late payment interest on overdue royalties. Amoco argues that the statute of limitations prohibits the collection of royalties after six years. The Court will first address Plaintiffs' common claims and then move to the individual claims.

APPLICABLE LAW

Summary Judgment Standard and Standard of Review

Summary judgment is appropriate when the record shows that "there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. Pro. 56(c) (2003). The Court must set aside the Assistant Secretary's decisions under the Administrative Procedure Act ("APA") if they are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law." 5 U.S.C. 706(2)(A) (1996). When Congress has not spoken to the specific question at issue a court will defer to an agency's interpretation of a statute it is entrusted to administer so long as it reasonable and "is based on a permissible construction of the statute." Chevron U.S.A., Inc. v. Natural Resources Defense Council, 467 U.S. 837, 842-45 (1984). Deference to the Assistant Secretary's decisions is appropriate in this case because Congress plainly delegated broad authority to the DOI "'to prescribe necessary and proper rules

and regulations and to do any and all things necessary to carry out and accomplish the purposes of [the Minerals Leasing Act]' . . . [which includes] collecting royalties and determining the methods by which they are calculated." Independent Petroleum Ass'n of America v. Dewitt, 279 F.3d 1036, 1039 (D.C. Cir. 2002) ("IPAA") (quoting 30 U.S.C. § 189). Moreover, deference is regularly accorded to agency decisions relating to mineral leases and royalty valuations. IPAA, 279 F.3d at 1040 (citing numerous cases in which courts deferred to agency construction of royalty regulations).[2]

The Mineral Leasing Act, the Federal Oil and Gas Royalty Management Act and Related Regulations

The MLA invests the Secretary of the Department of the Interior with the authority to "prescribe necessary and proper rules and regulations and to do any and all things necessary to carry out and accomplish the purposes of [the MLA]." 30 U.S.C. § 189 (1986). The Minerals Management Services ("MMS"), a division within the DOI, administers the MLA and manages royalty payments.

The Federal Oil and Gas Royalty Management Act of 1982 ("FOGRMA") was enacted by Congress upon finding that "the system of accounting with respect to royalties and other payments due and owing on oil and gas produced from such lease sites is archaic and inadequate." 30 U.S.C. § 1701(a)(2) (1986). The purpose of FOGRMA is to:

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[2] As this Circuit has noted, arbitrary and capricious review under the APA and the Chevron deference standard of review "overlap at the margins." Independent Petroleum Assn'n of America v. Babbit, 92 F.3d 1248, 1258 (D.C. Cir. 1996) ("Babbit"); Arent v. Shalala, 70 F.3d 610, 615 (D.C. Cir. 1995); Nat'l Ass'n of Regulatory Util. Comm'rs v. ICC, 41 F.3d 721, 728 (D.C. Cir. 1994). The heart of the matter in this case is whether the Assistant Secretary's decisions interpreting royalty valuation statutes and regulations were reasonable and consistent with the purpose of the Mineral Leasing Act. Understanding that an unreasonable interpretation is functionally equivalent to an arbitrary or capricious interpretation, analytically, the Court will apply the Chevron deference standard of review.

> clarify, reaffirm, expand, and define the responsibilities and obligations of lessees, operators, and other persons involved in transportation or sale of oil and gas from the Federal and Indian lands . . . [and] to clarify, reaffirm, expand, and define the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal lands . . . .

30 U.S.C. § 1701(b)(1), (2) (1986).

FOGRMA directs the Secretary of DOI to "audit and reconcile, to the extent practicable, all current and past lease accounts for leases of oil or gas and take appropriate actions to make additional collections or refunds as warranted." Id. at § 1711(c)(1) (1986). The Secretary may delegate all or part of this authority to a State upon written request. See 30 U.S.C. § 1735(a) (2003).

As noted previously, the MLA requires federal lessees to pay royalties in return for the privilege of mining federal lands. The calculation of royalties is governed by a labyrinth of interrelated statutes and regulations. The MLA requires lessees to pay a royalty "at a rate of not less than 12 ½ % in amount or value of the production removed or sold from the lease." 30 U.S.C. § 226(b)(1)(A) (2003). The "value of production" is defined by the so-called "gross proceeds" rule which provides that, for royalty purposes, the value of production shall under no circumstances be less than the gross proceeds earned by the lessee, minus certain allowances for transportation and processing. 30 C.F.R. § 206.153(h) (2002); 30 C.F.R. § 206.157(a) (2002); 30 C.F.R. § 206.158 (2002). "Production," as that term is used in the phrase "value of production," is production in marketable condition. California Co., 296, F.2d at 388.

The availability of transportation and processing allowances implicitly recognizes that the government should share in certain costs of production. However, lessees are required to assume the entire cost of placing gas in "marketable condition" and marketing the gas for the mutual

benefit of the government and lessee. 30 C.F.R. § 206.153(i) (2002). "Marketable condition" is a term of art defined for purposes of valuation as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. §206.151 (2002). By definition then, "marketable condition" is a fluid concept, wholly dependent on the particular facts of each case.

The marketable condition rule is pivotal in the calculation of royalties because it affects the determination of a lessee's gross proceeds, and therefore the value of production. When value "is determined by a lessee's gross proceeds, that value will be increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services the cost of which ordinarily is the responsibility of the lessee to place the residue gas or gas plant products in marketable condition or to market the residue gas and gas plant products." 30 C.F.R. § 206.153(i). In other words, royalties are due on the value of the gas in a certain condition–marketable condition–whether or not the producer pays the necessary conditioning costs directly or indirectly. The $64,000 question in this case is identifying what condition is "marketable condition" with respect to the gas produced by Plaintiffs.

DISCUSSION

The Payor Letter Does Not Violate the Administrative Procedure Act

Plaintiffs argue that the DOI applied the Dear Operator Letter of April 22, 1996 as an agency rule in violation of the APA. For purposes of the APA, a rule is defined as "the whole or part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency." 5 U.S.C. § 551(4) (1991). Agency rules are subject to notice

and comment, meaning that an agency must publish a proposed rule in the Federal Register and allow interested parties sufficient time to submit comments. 5 U.S.C. § 553 (1996). Interpretive rules, general statements of policy and rules of agency organization, procedure or practice are exempt from notice and comment procedures. See id. at § 553(b)(3)(A). An agency rule issued without notice and comment will be set aside as unlawful unless it falls within one of the three exceptions. 5 U.S.C. § 706(2)(D) (1996).

In both the ARCO/Vastar Decision and the Amoco Decision, the Assistant Secretary determined that the Dear Operator Letter is an interpretation of existing regulations and that the procedural requirements of the APA were therefore inapplicable. See ARCO/Vastar Decision at 19; Amoco Decision at 20 (citing Shalala v. Guernsey Memorial Hospital, 514 U.S. 87 (1995)). She further found that the MMS properly applied the valuation regulations as explained by the Dear Operator Letter and noted that the decisions of March 24, 2000 (ARCO/Vastar Decision) and September 12, 2000 (Amoco Decision) modified any inconsistencies between the MMS decision and the regulations that may have existed

Plaintiffs argue that the Assistant Secretary erred and that the Dear Operator Letter is a substantive rule which must be set aside because it was never subject to notice and comment. Alternatively, Plaintiff's argue that even if the Dear Operator Letter is not a substantive rule, i.e., it falls within one of the APA's three exceptions, notice and comment was nonetheless required because the Letter effected a change in existing law or policy. Defendants counter that the Dear Operator Letter was not subject to notice and comment because it is not binding on the agency and because it did not introduce a significant change in existing law.

In circumstances substantially similar to the instant case, this Circuit held that an

interpretive letter issued by the MMS did not constitute a rule and was therefore not subject to notice and comment. Babbit, 92 F.3d at 1256-57. In Babbit, the Associate Director of Royalty Management, MMS, issued a letter clarifying its treatment of settlement payments. It was part of a series of adjustments made by MMS in the face of fundamental changes in the structure of the natural gas industry and subsequent judicial decisions interpreting legislative intent and agency action. Specifically, the letter at issue in Babbit related to the determination of royalties due on settlement payments made by pipeline purchasers of natural gas to lessees in return for contract amendments or buyouts. The District Court held, and the Court of Appeals affirmed, that the letter itself did not constitute a rulemaking because "nothing in the DOI's procedures vests authority in the Associate Director of the MMS [the letter's author], or even the Director, to issue proclamations binding on the agency . . . [q]uite simply, the May 1993 letter is not an 'agency statement' with 'future effect' since it did not bind the agency in any way." Babbit, 92 F.3d at 1256 (affirming the District Court's unpublished decision in Independent Petroleum Ass'n of America v. Babbit, 1995 WL 431305 at *4 (D.D.C. June 14, 1995)).

The Dear Operator Letter at issue in this case was likewise issued by the Associate Director for Royalty Management, MMS, and therefore for the same reasons, it can no more bind the agency than the letter at issue in Babbit. To the extent that the ARCO/Vastar Decision and the Amoco Decision conflict with the above analysis, they are overturned. Nevertheless, the outcome is the same; the Court will not set aside the Dear Operator Letter because it is not a rule and it was therefore not subject to notice and comment.

Plaintiffs' Coalbed Methane Gas Is Not in Marketable Condition at the Wellhead

In their respective appeals to the Assistant Secretary, ARCO/Vastar and Amoco each asserted that the marketable condition rule only requires lessees to place gas in the physical condition necessary to market it under contracts typical for the field or area immediately surrounding the wellhead. Plaintiffs argued that their gas is in marketable condition in its natural state because it can be sold at the wellhead, and therefore they are not required to condition gas for downstream markets. Plaintiffs additionally argued that the MMS's requirement of conditioning gas to the interstate pipeline standard of 2% CO_2 was arbitrary and capricious. The Assistant Secretary flatly rejected both arguments.

Though the Assistant Secretary's Decisions are somewhat circuitous, the underlying rational is sound. After reviewing Plaintiffs' gas sales, she found that most of the gas produced by Plaintiffs from the field or area was conditioned to reduce the level of CO_2 because it was sold for use in distant markets.[3] This was true, the Assistant Secretary noted, whether gas was purchased at the wellhead in its natural state and subsequently conditioned by the purchaser, or purchased at the tailgate of a treatment plant after conditioning. The Assistant Secretary further noted that the purchase price of gas purchased at the wellhead in its natural condition was reduced to offset costs incurred by the purchasers to transport and condition gas to remove CO_2. In other words, the Assistant Secretary determined, contracts typical for the field or area involve gas with reduced CO_2 levels, whether the gas is purchased in that condition or whether purchasers perform the conditioning themselves in return for a reduced price, i.e., "[t]he fact that

[3] The Assistant Secretary noted that only about 10% of the production from the area was utilized in its untreated form. See Amoco Decision at 7-8, n. 11; ARCO/Vastar Decision at 5, n. 7 and 7, n. 9.

some purchasers are willing to purchase gas prior to conditioning and perform the conditioning themselves does not alter the finding that the gas needs to be conditioned." See ARCO/Vastar Decision at 5; Amoco Decision at 9. The Assistant Secretary concluded therefore that gas from the area must have a reduced level of CO_2 to be in marketable condition, and that producers cannot "alter the form of their sales arrangements in order to force the lessor to share in [their] costs to place the product in marketable condition." See id. Finally, based on her observation that most of the coalbed methane gas produced by Plaintiffs was sold for use outside the area of production, the Assistant Secretary agreed with MMS that the pipeline standards for CO_2 content effectively established the marketable condition standard.[4]

In the instant appeal, Plaintiffs again argue that gas is in marketable condition at the wellhead in its natural state and that the Assistant Secretary erred in finding otherwise. First, to be clear, Plaintiffs do not question the fact that they must bear the cost of placing the gas in marketable condition. Rather, they argue that the gas at issue is in marketable condition at the wellhead in its natural state as evidenced by the existence of wellhead sales. In other words, Plaintiffs would have the Court hold that the simple fact that gas can be sold at the wellhead demonstrates that it is in marketable condition. Defendants argue that the existence of wellhead sales is not determinative of whether gas is in marketable condition. Both parties rely upon California Co. for support of their position.

California Co. holds that the marketable condition rule requires the lessees to pay royalties on the costs of placing gas in marketable condition. California Co., 296 F.2d at 388.

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[4] The Assistant Secretary modified the ARCO/Vastar January Order and the Amoco May 27, 1997 Order to the extent that they directed Plaintiffs to recalculate royalties using pipeline quality standards that allowed variable amounts of CO_2 (1-3%) in the gas stream.

Calco, a lessee producing oil and gas on federal leases, executed a contract under which it agreed to sell gas "in its natural state suitable for pipeline transmission" at a particular price. California Co., 296 F.2d at 386. Although some of the gas produced by Calco met pipeline requirements in its natural state, some gas required compression or other conditioning to meet the pipeline requirements. See id. Calco acknowledged its obligation to market gas removed from the lease, but claimed that it was required to pay royalties only on the price of the gas minus the cost of conditioning. See id. at 386-87. Stated another way, Calco argued that it was not required to pay royalties on the cost of conditioning the gas. The Department of Interior thought otherwise. See id. at 387.

As described infra, the royalty valuation statute requires lessees to pay a royalty of 12 ½ % of the value of production removed or sold from the lease. 30 U.S.C. § 226(b)(1)(A).[5] In reviewing the agency's decision in California Co., the Court of Appeals focused on the phrase "value of production" and asked whether "production" refers to the raw product regardless of its condition, or the product conditioned for the market in which it is being sold. California Co., 296 F.2d at 387. The Secretary of the Department of Interior construed "production" as meaning gas conditioned for market because lessees were obliged to market the product at no cost to the government. See id. at 388. Ultimately, the Court of Appeals for the District of Columbia Circuit agreed, and as a result, Calco was required to pay royalties on the costs of conditioning the gas. The Court of Appeals prefaced their conclusion with a particularly salient observation:

> [t]heoretically, any gas – any "production" – is "marketable." We can assume that, if the price were low enough to justify capital expenditures for conditioning

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[5] Though the statute has been amended since California Co. was decided, the substance of this particular provision has remained unchanged.

> equipment, someone would undertake to buy [gas in its natural condition]. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between "marketing" and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition as it comes from the wells.

Id. at 387-88.

The distinction between "marketing" and merely "selling" is especially relevant given the facts of this case and the analysis underlying the Assistant Secretary's conclusion that the market for the gas at issue was for gas with reduced levels of CO_2. Based on typical sales contracts for the gas at issue, the Assistant Secretary determined that there was a very limited market for gas in its natural condition, which market consisted of a small local community capable of utilizing gas in spite of high levels of CO_2. The typical sales contract for gas produced in the area was one in which purchasers demanded gas suitable for the actual market which was distant from the production area. Thus, the actual market was for gas having low levels of CO_2, whether purchasers bought the gas at a reduced price and conditioned it themselves, or whether they purchased the gas at the tailgate of a treatment plant after conditioning.

The cases cited by Plaintiffs are consistent with the holding of California Co. and provide no support for their position. In Xeno, Inc., 134 I.B.L.A. 172 (1995), plaintiff, Xeno, together with other lessees from the same producing area, formed a joint venture to purchase gas at the wellheads and resell it to a third party after gathering and compression. Xeno, 134 I.B.L.A. at 173-4. Xeno paid royalties on the gross proceeds it received from the joint venture. See id. at 174. The State of Montana reviewed Xeno's royalty payments and determined that Xeno

improperly deducted gathering and compression charges from its gross proceeds because it had valued lease production on the gross proceeds received from sales to the affiliated joint venture rather than the value established by the arms-length agreement between the affiliated joint venture and the third party. See id. The agency agreed with the State of Montana's audit and assessed additional royalties. See id. Given the circumstances surrounding the joint venture's formation, the agency presumed that the sole purpose of the affiliated joint venture was to relieve Xeno and the other producers of the cost of gathering and compressing the gas, thereby reducing the amount of gross proceeds against which royalties would be collected. See id. at 175. The agency explained that the producers could not reduce the value of the gas for royalty purposes by gathering and compression costs that were necessary to put the gas in marketable condition, regardless of whether the gathering and compression was performed before or after being sold to the joint venture. See id.

Upon review, the administrative judge determined that the MMS incorrectly determined that gathering and compression were necessary *per se* to place the gas in marketable condition. Xeno, 134 I.B.L.A. at 182. The administrative judge found no evidence in the record of any analysis by the MMS of what constituted marketable condition for the gas at issue. See id. This was in stark contrast to substantial evidence provided by Xeno of competing offers from firms other than the affiliated joint venture to purchase gas at the wellhead prior to gathering or compression for similar or higher prices. See id. at 182-83. Thus, "unlike the record in California Co. there [was] evidence of a market for the gas at the wellhead." Id. at 183. The existence of competing offers to buy gas at the wellhead indicated that there was in fact a market for the gas at the wellhead in its natural condition and that gathering and compression were not necessary to

place the gas in marketable condition. Therefore the gathering and compression costs were properly excluded from Xeno's royalty calculation. See id.

The Tenth Circuit approved the rationale of Xeno in Amerada Hess Corp. v. Dept. of Interior, 170 F.3d 1032 (10th Cir), though the outcome was not the same. The issue in Amerada Hess was whether royalties were owed on reimbursements received by the producers for certain production-related costs. Amerada Hess, 170 F.3d at 1036. The court ultimately held that royalty was owed on such costs. However in arriving at its conclusion the court distinguished the case from Xeno, stating that "Xeno reached a different result because the producer company in that case showed that its gas was in marketable condition and could be sold directly from the wellhead . . . [plaintiff] has made no such showing here, and therefore cannot benefit from the DOI's ruling in Xeno." See id. at 1037.

Plaintiffs additionally rely upon Beartooth Oil and Gas Co. v. Lujan, No. 92-99 (D. Mont. Sept. 22, 1993) (vacating and remanding Beartooth Oil and Gas Co., 122 I.B.L.A. 267 (1992)). In Beartooth, the plaintiff, Beartooth, sold gas at the wellhead to Mesa, which in turn sold the gas to Mountain Fuel. Beartooth, slip op. at 2. None of the companies were affiliated and each of the sales agreements were arms length. See id. The price Mesa paid Beartooth (and on which Beartooth paid royalties) was based on the price Mesa received from Mountain Fuel, reduced by certain factors including the cost of compression for delivery to Mountain Fuel. Beartooth appealed the agency's order demanding royalties for the amount the Mesa/Mountain Fuel price was reduced for compression costs. Beartooth, slip op. at 2-3.

The court vacated and remanded the agency's decision because the agency failed to determine what constituted "marketable condition" for the gas at issue. The court found that the

MMS acted arbitrarily and capriciously because it did not consider whether or not the contract for sales of the gas at issue was "typical for the field." Beartooth, slip op. at 4. Rather, as it did in Xeno, MMS assumed that gas was not in marketable condition unless it was compressed. See id. at 5. The Court recognized in Beartooth that:

> Mesa may or may not be performing conditioning necessary to place Beartooth's gas into 'marketable condition.' However, until the IBLA first establishes what specifically constitutes 'marketable condition' for gas produced from the lease, it is arbitrary and capricious to conclude the gas as sold to Mesa was not in marketable condition.

Id. at 10.

Plaintiffs argue that the foregoing cases stand for the premise that gas is in marketable condition at the wellhead simply because it is sold at the wellhead. However, this construction is too narrow. In both Xeno and Beartooth, the agency's determination that gas was not in marketable condition at the wellhead was overturned because the agency failed to determine what constituted marketable condition under the particular circumstances of the case–not because the gas was in marketable condition at the wellhead. The existence of wellhead sales are one factor to consider in identifying marketable condition, but it is not the determinative factor, in part because it overlooks the plain language of the applicable regulations.

The marketable condition rule anticipates and prohibits the type of arrangements alluded to in California Co. and which the agency mistakenly assumed existed in Xeno, wherein producers offer reduced prices to purchasers who in turn incur the costs of placing gas in marketable condition. Specifically, the rule requires lessees to

> place gas in marketable condition and market the gas for the mutual benefit of the lessee and the lessor at no cost to the Federal Government. Where the value established under this section is determined by a lessee's

> gross proceeds, that value will be increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services the cost of which ordinarily is the responsibility of the lessee to place the gas in marketable condition or to market the gas.

30 C.F.R. § 206.152(i) (2002).

The Court's role is to decide whether the agency's interpretation and application of the "marketable condition" rule in this case is reasonable. After reviewing the evidence presented by the parties and the marketable condition rule, the Assistant Secretary determined that in this case, the gas at issue is not marketable unless it has reduced levels of CO_2. Since lessees must bear the cost of placing gas in marketable condition, it makes no difference whether purchasers buy the gas at the wellhead for a reduced price or at the tailgate of a treatment plant after conditioning. The Court finds that, under the particular circumstances in this case, the Assistant Secretary's decision is a reasonable application of the marketable condition rule. Therefore, Plaintiffs must pay royalties on the cost of conditioning the gas to reduce CO_2 levels.

Limitations on Transportation Allowances Are Appropriate

Though lessees are required to place gas in marketable condition at no cost to the government, they are permitted to deduct from the value of production certain reasonable and actual transportation costs. 30 C.F.R. §206.156 (2002). Plaintiffs argue that the Assistant Secretary's determination that transportation costs for CO_2 levels in excess of pipeline quality standards are not deductible is in error because the transportation and removal of CO_2 is "directly related" to transportation of lease production.

As discussed infra, the gas at issue must have a reduced level of CO_2 to be in marketable condition; therefore, lessees bear the costs associated with removing excess CO_2. The Assistant

Secretary observed that "transportation of the CO_2 to the treatment plant in this instance is a service that is inextricably tied to placing the gas in marketable condition because the CO_2 is extracted at the plant." ARCO/Vastar Decision at 15. She reasoned that the cost of transporting excess CO_2 from the wellhead to the conditioning facility was a marketing cost and could not be deducted as transportation costs.[6] As a result, the cost of transporting coalbed methane and 2% CO_2 from the wellhead to the conditioning plant was permitted as a transportation allowance and cost of transporting excess CO_2 was not.

The cases upon which Plaintiffs rely for their position are readily distinguishable from the facts of this case. Marathon Oil Co. v. United States, 604 F.Supp. 1375, 1378 (D.Alaska 1985), stemmed from a controversy between a lessee and MMS involving the proper method of valuing natural gas at the wellhead for royalty purposes. The marketable condition rule was not a factor in the court's finding that the costs of liquefying natural gas were incurred to facilitate transportation. Marathon, 604 F.Supp. at 1385-87. Similarly, in Exxon Corp., 118 I.B.L.A. 221 (1991), the Interior Board of Land Appeals determined that dehydration of the gas at issue was not necessary to satisfy market specifications but rather was performed for the sole purpose of facilitating transportation. Exxon Corp., 118 I.B.L.A. at 241. In contrast, CO_2 removal is essential in the instant case to place gas in marketable condition. That there exists a corollary benefit in reducing the level of CO_2 does not transform what is a marketing cost into a transportation cost. The Court therefore finds that the Assistant Secretary's application of the

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[6] Plaintiffs additionally challenge the Assistant Secretary's alternative rationale which turned on whether excess CO_2 is properly identified as a "waste" product or a "non-royalty" product. However, the Court need not address Plaintiffs' arguments on this issue since the Assistant Secretary's decision is affirmed on the grounds that marketing costs cannot be deducted as transportation costs.

regulations relating to transportation allowances to the circumstances of this case is reasonable, and for that reason, Plaintiffs' appeal thereof is denied as to this issue.

ARCO/Vastar Is Not Entitled to an Extraordinary Processing Allowance

As described infra, lessees pay royalties on the value of production removed or sold from the lease. "Value of production" is defined by regulations promulgated by MMS and includes allowances that permit lessees to deduct certain transportation and processing costs from the royalty value. Lessees may not take deductions for costs incurred to place production in marketable condition or for processing lease production which is not royalty bearing. 30 C.F.R. § 206.158(d)(1) (2002). Lessees may however apply to MMS for an allowance for extraordinary processing costs, i.e., those shown to be extraordinary, unusual or unconventional as compared to standard industry conditions and practice. 30 C.F.R. 206.158(d)(2)(i). Guidelines issued by MMS on March 19, 1996, set forth the following factors MMS considers in evaluating an application for extraordinary processing costs: (1) the composition of the gas stream being processed; (2) the complexity of the gas plant design compared to conventional or typical gas processing plants, as well as the methods used to process the gas to remove elements or compounds from the gas; and (3) the unit costs incurred to recover the principal product, usually methane. See ARCO/Vastar Administrative Record, tab 23-2, MMS Guidelines for Extraordinary Processing Cost Recovery, March 19, 1996 ("March 19 Guidelines").

On April 29, 1997, Vastar requested approval for an extraordinary cost allowance for the cost of removing CO_2 from its gas stream. The RVD Decision denied Vastar's application because MMS determined that Vastar did not "compellingly demonstrate that the resource, plant design or unit costs are extraordinary, unusual or unconventional" and because "[r]egulations at

30 C.F.R. § 206.158(d)(1)(1996) disqualify a processing allowance for this case." See RVD Decision at 1. Vastar appealed the RVD Decision to the Assistant Secretary who, after reviewing the decision and considering the parties' arguments, agreed that ARCO/Vastar was not entitled to an extraordinary processing allowance.

ARCO/Vastar appeals the Assistant Secretary's decision arguing that it is arbitrary and capricious. ARCO/Vastar asserts that the Assistant Secretary ignored the DOI's own precedent because it had previously approved an extraordinary processing allowance for the Louisiana Land and Exploration Company for costs incurred in removing CO_2. ARCO/Vastar additionally argues that an extraordinary processing cost allowance is permitted under the March 19 Guidelines when gas plant products (in this case, CO_2) are vented into the air rather than being sold as a separate product. Finally, ARCO/Vastar argues that coalbed methane gas as a product is eligible for an extraordinary cost allowance.

The ARCO/Vastar Decision is not arbitrary and capricious as the Assistant Secretary fully and carefully considered the prerequisites necessary for an extraordinary processing cost allowance before agreeing with MMS that ARCO/Vastar was ineligible. At the outset of the decision, the Assistant Secretary observed that ARCO/Vastar was not entitled to a processing allowance for the costs of CO_2 removal under 30 C.F.R. § 206.158(d)(1) because such conditioning was necessary to place the gas in marketable condition (a cost lessees must bear alone) and because the CO_2 was vented into the air rather than being captured and sold as a royalty bearing product. The Assistant Secretary then turned to the issue of whether CO_2 removal qualified as an extraordinary processing cost under 30 C.F.R. § 206.158(d)(2)(i) and the March 19 Guidelines.

The Assistant Secretary agreed with ARCO/Vastar that its gas is "atypical" due to the high CO_2 content, but stated that this determination alone was not dispositive, presumably because the design of the Val Verde plant and the process used to remove the CO_2 must also be considered. See ARCO/Vastar Decision at 12; see also, March 16 Guidelines. Though ARCO/Vastar attempted to distinguish the Val Verde plant from conventional plants by focusing on the type, concentration and amount of amine used and the amount of water required to remove CO_2 from the gas stream, the Assistant Secretary concluded that the use of amine in gas processing plants is common and the Val Verde plant itself was relatively simple compared to other conventional gas processing plants because its only function is to remove CO_2. See id. at 12. Finally, the Assistant Secretary was unable to evaluate whether ARCO/Vastar's costs were typical or extraordinary because ARCO/Vastar failed to provide standard industry costs for CO_2 removal. Rather it simply argued that its cost of $0.0778 per Mcf to recover methane is "significant." See id. at 13.

ARCO/Vastar's argument that it is entitled to an extraordinary processing cost allowance because of the agency's decision regarding extraordinary processing cost allowances for Louisiana Land and Exploration Company ("LL&E") is entirely without merit. See ARCO/Vastar Administrative Record, tab 13-3, MMS letter to The Louisiana Land and Exploration Company, March 15, 1996 ("LL&E Letter"). First, the regulation requires lessees to apply to the MMS for an extraordinary processing cost allowance, which will be granted "only if the lessee can demonstrate that the costs are, by reference to standard industry conditions and practices, extraordinary, unusual, or unconventional." 30 C.F.R. § 206.158(d)(2)(i). In other words, extraordinary processing cost allowances are approved on a case by case basis and are

necessarily dependent on the specific facts of each case.

Second, unlike ARCO/Vastar, LL&E demonstrated that not only its gas but also its plant design and costs were extraordinary, unusual or unconventional in comparison to standard industry conditions. LL&E's gas was atypical because it contained no natural gas liquids ("NGLs") and was comprised of 20% CO_2 and 12.6% hydrogen sulfide (H_2S). See LL& E Letter at 3. MMS noted that "[t]his gas is the only gas stream in the continental U.S. containing such high levels of both CO_2 and H_2S, with no NGLs."[7] See id. Further complicating matters was the fact that the gas produced by LL&E was significantly hotter than conventional gas streams. See id. The MMS found that the high temperature of the LL&E gas combined with its highly acidic composition necessitated a unique and complex processing unit. See id. In contrast, the Assistant Secretary noted that the amine process used in the Val Verde plant is "quite common" and the plant itself is "composed of only one part of what is considered a fairly complex natural gas processing plant." See ARCO/Vastar Decision at 12. Finally, LL&E provided both its own processing costs and typical industry costs of processing acidic gas streams, enabling MMS to compare the two and determine that in fact LL&E's processing costs were extraordinary. See id. at 4. ARCO/Vastar did not provide standard industry costs for recovering methane, but rather expected the Assistant Secretary to rely on its assertion that its costs were "significant."

ARCO/Vastar's remaining arguments are merely unsupported assertions. ARCO/Vastar does not explain why the March 16, 1996 Guidelines would permit an extraordinary processing

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[7] ARCO/Vastar argues that it is entitled to an extraordinary processing cost allowance because with respect to LL&E "the MMS relied on the absence of liquids in a gas stream for its finding that the gas was atypical and qualified for an extraordinary processing allowance." See Plaintiffs' Joint Memorandum of Points and Authorities in Support of Motions for Summary Judgment at 52. However, this is a misstatement as MMS plainly did not rely solely on the fact that LL&E's gas contained no NGL's.

cost allowance when gas plant products such as CO_2 are vented into the air rather than being sold as a separate product. Nor does ARCO/Vastar describe why coalbed methane gas as a product is eligible for an extraordinary cost allowance.[8] As a result, ARCO/Vastar's appeal is denied as to this issue.

Late Payment Interest Is Due on Additional Royalties

In the January Order, MMS stated that late payment interest would be calculated and assessed upon receipt of payment of additional royalties. See January Order at 8. The Assistant Secretary sustained the assessment of late payment interest in the ARCO/Vastar Decision because she determined that it was supported by longstanding precedent. See ARCO/Vastar Decision at 19.

The government's right to interest on late royalty payments is statutorily recognized in FOGRMA, which states that:

> in the case of oil and gas leases where royalty payments are not received by the Secretary on the date that such payments are due, or are less than the amount due, the Secretary shall charge interest on such late payments or underpayments at the rate applicable under section 6621 of Title 26. In the case of an underpayment or partial payment, interest shall be computed and charged any on the amount of the deficiency and not on the total amount due.

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[8] ARCO/Vastar consistently compares its gas to non-coalbed natural gas in order to justify an extraordinary processing allowance. However, MMS sensibly explained in the RVD Decision why such a comparison is inapplicable:

> [n]atural gas has diverse characteristics in terms of geologic setting, reservoir properties, operational requirements and particularly composition. Although one may classify natural gas into certain categories, such as sweet gas, sour gas, wet gas, dry gas, associated gas or even coalbed gas, each gas occurrence has individual characteristics that differentiate it to some degree from another. In this respect it can be argued that each natural gas is unique in some manner.

See RVD Decision at 3-4.

In other words, the real question is not whether coalbed methane gas is atypical (which the Assistant Secretary determined it was), but whether the coalbed methane gas produced by Vastar is atypical or unusual.

30 U.S.C. § 1721(a) (2003).

Likewise, the implementing regulation issued by MMS states that "an interest charge shall be assessed on unpaid and underpaid amounts from the date the amounts are due." 30 C.F.R. §218.54(a) (2002). The imposition of late payment interest charges is intended to compensate the government for the time value of money due to it but not timely paid. See Meridian Oil, Inc., 140 I.B.L.A. 135, 143 (1997). The language of the statute and implementing regulation indicates that the assessment of late payment interest is not discretionary.

ARCO/Vastar argues that "imposition of late payment interest would be inequitable" and urges the Court to relieve it of late payment interest charges as the court did in Jicarilla Apache Tribe v. Continental Oil Co., No. 76-430 (D.N.M. November 21, 1988) ("Conoco"). Plaintiff's reliance on the Concoco decision is misplaced however because it dealt with the payment of *prejudgment* interest and because the lessees in the case were ultimately required to pay *postjudgment* interest.

In Conoco, the court found, in relevant part, that lessees owed additional royalties in an amount to be calculated by the agency within a set time. The court declined to assess *prejudgment* interest at the time of its decision because it was not "appropriate on a debt which is unliquidated and incapable of calculation prior to judgment." Conoco, Findings of Fact and Conclusions of Law, May 13, 1998, at 17. Following the Concoco decision, the amount of royalties owed by the lessees was calculated and the MMS issued three Orders assessing additional royalties and corresponding late payment interest. The IBLA sustained the assessment of late payment interest on appeal. In its analysis, the IBLA reviewed 30 U.S.C. § 1721(a) and 30 C.F.R. § 218.54(a), and determined that "the court's denial of prejudgment interest [in Conoco]

does not bar MMS from seeking postjudgment interest on those underpayments . . . [i]ndeed, MMS is statutorily required to do so." Meridian Oil, Inc., 140 I.B.L.A. at 144.

As the IBLA observed in Meridian, the mandatory nature of the statutory and regulatory language pertaining to the payment of late payment interest speaks for itself, and for that reason, the Court will not set aside the Assistant Secretary's assessment of late payment interest.

The Amoco Decision Does Not Violate the Statute of Limitations

Amoco argues that the agency is barred from collecting royalties accrued more than six years prior to the May 27, 1997 Order by the statute of limitations set forth in 28 U.S.C. 2415(a):

> [s]ubject to the provisions of section 2416 of this title, and except as otherwise provided by Congress, every action for money damages brought by the United States or an officer or agency thereof which is founded upon any contract express or implied in law or fact, shall be barred unless the complaint is filed within six years after the right of action accrues or within one year after final decisions have been rendered in applicable administrative proceedings required by contract or by law, whichever is later . . . .

28 U.S.C. § 2415(a) (1994).

The Assistant Secretary denied Amoco's appeal on this issue stating that the statutory bar was inapplicable because the proceeding was an administrative appeal. See Amoco Decision at 21. Her decision was consistent with longstanding I.B.L.A. precedent. See Foote Mineral Co., 34 I.B.L.A. 285, 306-308 (1978); Anadarko Petroleum Corp., 122 I.B.L.A. 141, 148 (1992) (holding that §2415(a) does not apply to administrative proceedings); Meridian Oil, Inc., 140 I.B.L.A. 135, 145 (1997) (stating that "we have long ruled that statutes establishing time limitations for the commencement of judicial actions for damages on behalf of the United States do not limit administrative proceedings within the DOI").

In 1996, Congress amended FOGRMA by enacting a seven year statute of limitations on

lease-related demands, specifically "a judicial proceeding or demand which arises from, or relates to an obligation, shall be commenced within seven years from the date on which the obligation becomes due and if not so commenced shall be barred." 30 U.S.C. § 1724(b)(1) (2003). The amendment explicitly precludes the application of the statute of limitations set forth in 28 U.S.C. § 2415 to any obligation arising under FOGRMA. 30 U.S.C. § 1724(b)(3). Unfortunately, the provisions of the amended statute do not control this case because it relates to gas produced between January 1989 and August 1996; the seven year statute of limitations of §1724(b)(1) applies only to oil and gas production occurring after its effective date of September 1, 1996. As a result, the Court must determine whether 28 U.S.C. 2415(a) bars the agency from collecting royalties due more than six years prior to the May 27, 1997 MMS Order.

The Court's inquiry must begin with the language of the statute itself. Butler v. West, 164 F.3d 634, 639 (D.C. Cir. 1999). In addition, the United States Supreme Court has held that "statutes of limitation sought to be applied to bar rights of the Government . . . must receive a strict construction in favor of the Government." Badaracco v. Comm'r of Internal Revenue, 464 U.S. 386, 391 (1984) (quoting E.I. Dupont de Nemours & Co. v. Davis, 264 U.S. 456, 462 (1924)). Complicating matters is the existence of a circuit split as to whether 28 U.S.C. § 2415(a) applies to MMS orders to collect additional royalties.

Plaintiffs rely primarily upon a relatively recent en banc decision in which the 10th Circuit held that 28 U.S.C. § 2415(a) barred an MMS order directing lessees to pay additional royalties on production produced before September 1, 1996. OXY USA, Inc. v. Babbit, 268 F.3d 1001

(10th Cir. 2001) ("OXY USA II").[9] OXY USA II stemmed from a December 1996 order issued by MMS directing lessees to pay additional royalties for oil produced from federal leases between January 1980 and September 1983. OXY USA II, 268 F.3d at 1003-1004. Lessees filed suit in district court seeking a declaration that the claim for royalties was time barred by 28 U.S.C. § 2415(a). See id. The district court, relying on language in Phillips Petroleum Co. v. Lujan, 4 F.3d 858, 860 & n.1 (10th Cir. 1993), determined that § 2415(a) barred the MMS order and granted summary judgment in favor of lessees.[10] See id. On appeal, a divided panel of the 10th Circuit Court of Appeals reversed, holding that § 2415(a) was inapplicable because MMS orders are not "actions" as contemplated by the statute. OXY USA, Inc. v. Babbit, 230 F.3d 1178, 185-90 (10th Cir. 2000) ("OXY USA I").

The 10th Circuit granted a Petition for Rehearing and after a methodical analysis, concluded that "the statutory language, together with a forthright statutory scheme and purpose, clearly instruct that the six year statute of limitation[s] under 28 U.S.C. § 2415(a) applies to the MMS orders in this case." OXY USA II, 268 F.3d at 1005. Upon concluding that the statutory time bar of 28 U.S.C. § 2415(a) applied, the 10th Circuit vacated OXY USA I and affirmed the district court's order granting summary judgment to the lessees. See id. at 1008.

In the en banc decision, the 10th Circuit first considered the phrase "every action" in § 2415(a) and found it to be "patently broad" and ultimately inclusive of administrative collection

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9 Plaintiffs additionally cite a decision by the United States District Court for the District of Alaska which applied §2415(a) to an MMS order seeking additional royalties because it found such efforts "more analogous to actions at law for damages than to actions in equity for restitution." Marathon Oil Co. v. Babbitt, 938 F.Supp. 575, 578 (D.Alaska 1996).

10 The court in Phillips Petroleum v. Lujan accepted without discussion the parties' agreement that 28 U.S.C. § 2415(a) applied to the government's effort to collect royalty underpayment and agreed with the parties that the oil and gas leases at issue were contracts. Phillips Petroleum v. Lujan, 4 F.3d at 860.

proceedings such as the MMS order at issue. Id. at 1005. The statute's subsequent reference to a "complaint"did not limit its application to formalized judicial proceedings, the 10th Circuit stated, in light of "the statute's obvious purpose to level the playing field between the government and private litigants by forcing the government to promptly assert its claims [and a] reading of the entire text of § 2415, including subsections (f) and (i)." Id. Subsection (f) allows the United States to assert, in an action against it, a counter claim or offset against a party under certain conditions. 28 U.S.C. § 2415(f). Subsection (i) permits the United States to collect a claim by means of administrative offset. 28 U.S.C. § 2415(i). The 10th Circuit found these provisions demonstrative of Congressional intent for "§ 2415(a) to encompass more than the filing of a 'complaint' in court." Id. at 1006.

Notwithstanding lessees' statutory obligation to make royalty payments on production from federal leases, the 10th Circuit concluded that the MMS royalty collection order was founded on contract. See id. at 1007. The Circuit next rejected the distinction recognized by the 5th Circuit in an unpublished decision between"contractual obligations," i.e., royalties due on production, and money damages, finding that it too narrowly construed the phrase "money damages." See id. at 1007-1008 (referring to the 5th Circuit's decision in Phillips Petroleum Co. v. Johnson, 1994 WL 484506 (5th Cir.) ("Phillips Petroleum")). The Circuit stated that Bowen v. Massachusetts, 487 U.S. 879 (1988), upon which the 5th Circuit relied in Phillips Petroleum, was "neither binding nor persuasive" and held that the MMS order was an action for money damages because it was "substantively indistinguishable from other government claims to recover money owed under contracts governed by the limitations period in §2415(a)." Id.

Finally, the 10th Circuit determined that FOGRMA's seven year statute of limitations did

not trigger the "except as otherwise provided by Congress" exception of 28 U.S.C. § 2415 "because [the FOGRMA limitation] applied only to oil and gas production occurring after its effective date of September 1, 1996." Id. at 1009. The 10th Circuit further reasoned that Congress would not have amended FOGRMA to include a statute of limitations if it believed that the provisions therein and the enacting regulatory scheme otherwise superceded 28 U.S.C. § 2415(a). See id.

Defendants argue that § 2415(a) cannot apply to this case because it is not a complaint or action brought by the United States for money damages. Defendants refer to the unpublished 5th Circuit decision in Phillips Petroleum holding that § 2415(a) did not apply to an MMS order to collect additional royalties because "actions that don't involve the filing of a complaint are not 'action[s] for money damages'" as contemplated by the statute. Phillips Petroleum, 1994 WL 484506, *1. In addition, as mentioned above, the 5th Circuit noted in Phillips Petroleum the distinction between "money damages," which generally refers to a sum of money used as compensatory relief, and the contractual obligations sought by the MMS, and held that "[s]uch contractual obligations cannot be considered compensatory." Id. (citing Bowen v. Massachusetts, 487 U.S. 879, 897 (1988)).

More persuasively however, Defendants also rely upon a decision by the United States District Court for the District of Columbia, which held that the limitation of § 2415(a) did not act as a time bar to an MMS order to collect additional royalties and associated interest. Samedan Oil Corp. v. Deer, 1995 WL 431307 (D.D.C.) rev'd on other grounds, IPAA v. Babbitt, 92 F.3d 1248, 1260 (D.C. Cir.) ("[b]ecause we conclude that DOI cannot collect any royalties on the settlement payment, it is unnecessary for us to consider appellant Samedan's statute of

limitations claim"). At issue in Samedan was a December 1993 MMS order directing the lessee to pay royalties due on production produced between February 1988 and November 1989. Samedan at *1. In October 1994, after the agency affirmed the order, the lessee filed suit in court seeking to enjoin the order. See id. The government filed a counterclaim to enforce the order in November 1994. See id. The lessee argued in Samedan that the six year statute of limitations of §2415(a) barred the collection of royalties due prior to October 31, 1988 because the "complaint" to enforce an "action for money damages," i.e., the MMS order, was the government's November 1994 counterclaim. See id. at *3. As in this case, the government argued that § 2415(a) did not apply.

The district court first decided that the lease, while it referred to and incorporated certain statutes and regulations, was founded on contract as evidenced by numerous contractual provisions such as the lease term, royalty rate, timing and frequency of payments, and record-keeping and reporting requirements. See id. at *4-5. Though separately the terms were not determinative of the existence of a contract, together the district court found that they "are integral to an interpretation of the lease [and] are beyond mere backdrop for an incorporated statute . . . the statute and the regulations play an interstitial role in an otherwise self-contained document." Id. at *5.

The district court next agreed with the government's position that the additional royalties sought by the MMS were "not money damages because they are not compensatory, but rather something to which the government is already entitled under the terms of the lease." See id. at *5. Looking to the 5th Circuit's decision in Phillips Petroleum and the Supreme Court's decision in Bowen v. Massachusetts, 487 U.S. at 893 (stating that "the fact that a judicial remedy may

require one party to pay money damages to another is not sufficient reason to characterize the relief as 'money damages'"), the court held that § 2415(a) was inapplicable because "DOI's claim is not to recover damages; it is to collect royalties payable under the terms of the Samedan lease." Id. at *6.

The district court next turned to the term "action" as used by the statute in the phrase "action for money damages." The lessee in Samedan urged the district court to extend the term "action" to include administrative proceedings. Samedan at *7. The district court found the 5th Circuit's opinion in Phillips Petroleum controlling and declined the lessee's invitation, reasoning that:

> [o]nly if "action" includes administrative proceedings but "complaint" is confined to judicial pleadings, might Samedan prevail. That construction, however, violates the sense of the statute. Section 2415(a) states that "every action for money damages . . . shall be barred unless the complaint is filed within six years . . . ." Use of the definite article 'the' to modify 'complaint'–instead of the indefinite article 'a'–tells us that a particularized 'complaint' has been previously specified by context . . . it is clear that the antecedent of 'complaint' is 'action.'

Id.

The district court therefore held that "action" as used in § 2415(a) applied to "judicial but not to administrative proceedings," and that the judicial action before the court (i.e., the government's counterclaim for summary judgment to enforce the administrative order) was an action to enforce an administrative order, not to collect money damages. Id. at *7-9.

To summarize, although the MMS order was based on contract, the United States District Court for the District of Columbia held in Samedan that § 2415(a) was no bar to the MMS order because the government was not pursuing "money damages" and because the government's claim was not an "action" as those terms are used in the statute. See also, Vastar Resources, Inc.

v. Armstrong, No. 94-02040 (D.D.C. Aug, 27, 1997); but see, Fina Oil & Chemical Co. v. Norton, 209 F.Supp. 246, 257 (D.D.C. 2002) (finding that the six year statute of limitations under §2415(a) applied, but holding that it did not bar the action before the court because it was brought by the lessee) rev'd on other grounds, Fina Oil & Chemical Co. v. Norton, 332 F.3d 672 (2003).

The Court finds the logic underpinning the district court's decision in Sameden persuasive. Therefore, upon review of the statute and consideration of the facts of this case, the Court holds that § 2415(a) does not bar the collection of royalties due six years prior to the May 27, 1996 MMS Order in this case for the following reasons. First, as in OXY USA II and Samedan, the royalty claims at issue in this case arise from the lease, i.e., a contract. Nevertheless, the MMS Orders which Plaintiffs appeal do not seek money damages, but rather claim royalties due under the lease. Sameden at *6. Furthermore, the relationship between "action" and "complaint" in the statute indicates that the statute applies to judicial proceedings, not administrative orders. Samedan at *7. Finally, the statute plainly bars "every action for money damages *brought by the United States*." The action currently before the court was not brought by the United States, it is an appeal of administrative orders brought by Plaintiffs pursuant to the Administrative Procedure Act and other statutes. Moreover, unlike the circumstances in Samedan, the government has not filed a counterclaim to enforce the May 1997 Order. Therefore, Amoco's Motion for Summary Judgment is denied with respect to this issue.

CONCLUSION

For the reasons set forth herein, in an accompanying Order, the Court will deny the Plaintiffs' Motions for Summary Judgments and grant the Defendants' Motion for Summary Judgment.

William B. Bryant
Senior United States District Judge

November 14, 2003

IN REPLY REFER TO:

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OFFICE OF HEARINGS AND APPEALS
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BEARTOOTH OIL AND GAS CO.

IBLA 90-304 Decided March 3, 1992

Appeal from a decision of the Director, Minerals Management Service, upholding an order of the Denver Royalty Compliance Division assessing additional royalties. MMS-89-0117-O&G.

Affirmed.

1. Oil and Gas Leases: Royalties: Generally--Federal Oil and Gas Royalty Management Act of 1982: Royalties--Words and Phrases

"Marketable condition rule." A Federal oil and gas lessee is under an obligation to assume the expenses of placing any gas produced and sold into "marketable condition." No deduction from royalty is allowed for the expenses of compressing gas required to place it in marketable condition regardless of whether these costs are paid directly by the lessee or by a third party. The price of gas sold at the wellhead which has been reduced from the price of gas in marketable condition by the costs of compressing it as required for marketing to a pipeline purchaser does not establish the value of the gas in marketable condition.

APPEARANCES: Gary G. Broeder, Esq., Billings, Montana, for appellant; Howard W. Chalker, Esq., Office of the Solicitor, U.S. Department of the Interior, Washington, D.C., for the Director, Minerals Management Service.

OPINION BY ADMINISTRATIVE JUDGE GRANT

Beartooth Oil and Gas Company has appealed from a decision of the Director, Minerals Management Service (MMS), dated February 5, 1990, upholding an order of the Denver Royalty Compliance Division, MMS, assessing additional royalties. The latter order, dated February 23, 1989, held that appellant had underpaid royalties in the amount of $32,107.25 on gas produced and sold from 10 Federal oil and gas leases during the period January 1980 through December 1986. 1/ This underpayment occurred, MMS found, because Beartooth improperly deducted compression charges when calculating and paying royalties due.

1/ These leases are: SL-071172 , U-026, U-24632, U-25888, U-29334, U-30301, U-31272, U-41378, U-44444, and U-51052.

The MMS order was based in part upon language in Notice to Lessees (NTL) Nos. 1 and 5 to the effect that no deduction will be allowed for the cost of gathering and compressing gas which an operator incurs by reason of placing the gas in a marketable condition, as an operator is obligated to do so at no cost to the lessor. See NTL-1, 42 Fr 4546, 4548 (Jan. 25, 1977); NTL-5, 42 FR 22610, 22611 (May 4, 1977). 2/

Two separate elements of compression costs are at issue here. The first question involves compression costs occurring downstream of the leasehold. Beartooth produced natural gas from its Federal leases and sold it to Mesa Pipeline Company under a gas purchase agreement. The gas was sold at the meter connection on each of the respective Beartooth leases and title to the gas was transferred at that point. Downstream of the point of sale from Beartooth, Mesa compressed the gas as required to make delivery to its purchaser, Mountain Fuel Resources, Inc. Pursuant to its agreement with Beartooth, Mesa reduced the price which it paid to Beartooth by the amount of the downstream compression costs incurred in order to market the gas to Mountain Fuel. MMS found that underreporting occurred when Beartooth then computed the royalty due on its production by applying the royalty rate to the net sales price paid by Mesa after deducting compression costs. 3/ A secondary question involves the deduction of charges incurred by Beartooth for the use of a compressor at its Bryson Canyon #17 well.

The Director's decision of February 5, 1990, which upheld the order of the Denver Royalty Compliance Division, relied in part on regulation 43 CFR 3162.7-1(a). This rule provides: "The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land." The Director noted that it is well established that the operator of Federal leases is obligated to market production from the leases without deduction of compression costs, citing the Geological Survey Conservation Division 4/ Manual, which states at section 647.2.3A: "The lessee is obligated to place lease production in marketable condition without deduction of costs for measuring, compressing, or otherwise conditioning the gas for market."

In his February 5, 1990, decision, the Director responded to Beartooth's argument that Mesa's downstream compression was unnecessary for

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2/ NTL-1 and NTL-5 have been superseded and terminated effective Mar. 1, 1988. 30 CFR 206.150(e); 53 FR 1230, 1271 (Jan. 15, 1988).

3/ In affirming the order to pay additional royalties, the Director upheld the findings of the State of Utah Tax Commission, which audited Beartooth's royalty payments under authority delegated pursuant to section 205 of the Federal Oil and Gas Royalty Management Act, 30 U.S.C. § 1735 (1988).

4/ Prior to creation of MMS, royalty collection was the responsibility of the Conservation Division of Geological Survey. MMS was created by Secretarial Order No. 3071 (Jan. 19, 1982). 47 FR 4751 (Feb. 2, 1982). Matters relating to royalty and mineral revenue management were subsequently transferred to MMS under Secretarial Order No. 3087 (Dec. 3, 1982). 48 FR 8983 (Mar. 2, 1983).

Beartooth to satisfy its duty to market production. The Director found this argument to be without merit because "the compression performed by Mesa is not an event that occurs independently of Beartooth's sale of the gas to Mesa." In support of this conclusion, the Director looked to the price paid by Mesa to Beartooth and found that it had been "calculated by a formula which includes a reduction for the downstream compression costs incurred by Mesa in its sale to Mountain Fuel." 5/

Appellant's sales contract expressly provides for a deduction from the sales price to compensate Mesa for the costs of compression, the Director found, and the proceeds received by Beartooth upon sale are directly diminished by these costs. Even if the marketing costs in dispute are Mesa's and not appellant's, it is clear that Mesa has passed those costs on to appellant in the form of a deduction from the gas sales price, the Director stated. The fact that a lessee, in effect, pays the purchaser to compress the gas by accepting a reduction in the sales price does not alter the rule that the lessee cannot reduce the royalty value by the cost of compressing the gas (Director's Decision at 3-4).

In its statement of reasons (SOR) for appeal to the Board (dated April 5, 1990), Beartooth emphasizes that its sale of gas to Mesa is an arm's-length transaction. Title to the gas is transferred from Beartooth to Mesa at the meter connection on the subject leases (SOR, Apr. 5, 1990, at 1). The price paid to Beartooth is the Mesa-Mountain Fuel price less Mesa's compression charges (SOR on appeal to the Director, dated Apr. 27, 1989, at 3). Appellant states that Mesa's resale of this gas to Mountain Fuel is similarly an arm's-length transaction. Beartooth, Mesa, and Maintain Fuel are unrelated entities, appellant urges, and Beartooth in no way controls or is involved with Mesa's resale to Mountain Fuel.

No compression is required for Beartooth to either sell or make delivery of its gas to Mesa, appellant states. Mesa, however, performs two stages of compression to allow it to make deliveries to Mountain Fuel (SOR, Apr. 5, 1990, at 1,2). Compression occurs offlease and downstream of the Beartooth-Mesa meter while the gas is under Mesa's exclusion control, appellant remarks. Appellant argues that these facts distinguish the present appeal from California Co. v. Udall, 296 F.2d 384 (D.C. Cir. 1961), where compression was performed on the leasehold by the operator prior to sale. Beartooth is in no manner performing the compression here, appellant states, nor is it being compensated or reimbursed for such services.

Beartooth further argues that even assuming the Director is correct that a lessee is obligated to place lease production in marketable condition without a deduction for compression costs, this principle is misapplied here. Beartooth's market for the gas is Mesa, appellant urges, and no compression is required for Beartooth to sell to Mesa. Compression is, therefore, unnecessary to place the gas in marketable condition insofar as the Beartooth-Mesa market is concerned (SOR, Apr. 5, 1990, at 2).

5/ Director's decision at 3, quoting from Mesa's brief before the Director, dated Apr. 27, 1989, at 1.

Appellant acknowledges that the Beartooth-Mesa price is determined by a formula which includes, inter alia, a reduction for compression costs incurred by Mesa, but explains this fact by noting that Mesa must determine the wellhead price it can afford to pay producers like Beartooth by deducting its marketing costs and profit margin from the resale price it receives from Mountain Fuel. If it failed to do so, it would soon be out of business, appellant argues.

[1] It is well established that a Federal oil and gas lessee is under an obligation to assume the expenses of marketing any gas produced from the leasehold. The Texas Co., 64 I.D. 76, 79 (1957). 6/ In that case the lessee operated only two wells in a much larger field and contracted with Humble Oil, the operator of gathering pipelines and compressor stations, to transport the low-pressure gas from appellant's separator at the wellhead to the point of market at the pipeline and to compress the gas to the pressure required for entry into the buyer's pipeline. The lessee argued that it was not economically feasible for it, as the operator of only two wells in the field, to install equipment to gather and compress the small amount of gas produced from its wells. Hence, the lessee sought to deduct the costs charged by Humble for gathering and compressing the gas. The Department explicitly rejected appellant's contention that lessee's duty was limited to marketing the low-pressure gas at the wellhead thus entitling the lessee to deduct the cost of transporting the gas to the point market in the field and placing the gas in such condition that it can enter that market:

> The lease requires the lessee to market the production from the lease and until the gas from the wells is in such a condition that it can be sold in the market, it cannot be said that the lessee has fulfilled his obligations under the lease. The lessee has not shown that the gas can be marketed at the pressure with which it comes from the wells.

The Texas Co., 64 I.D. at 79.

We find this precedent to be controlling in the present case. Appellant would seek to distinguish the facts of The Texas Co. case and the present appeal in that the lessee in the former contracted with a third party to undertake gathering and compression of the gas for the market whereas, in the present appeal, the lessee sold the low-pressure gas to the party undertaking the gathering and compression for a price reduced from the market price by the amount of the costs of gathering and

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6/ The duty of the Federal lessee to market the gas was held to be clearly spelled out in the regulation at 30 CFR 221.35 (1959) requiring the lessee to avoid waste of gas and to either market it, consume it beneficially, or return it to the producing formation. 64 I.D. at 79. A similar requirement is found in the operating regulations currently in effect which mandate that: "The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land." 43 CFR 3162.7-1(a).

compression. We find this distinction to be immaterial. Whether the lessee assumes the expense of gathering and compression himself or pays a third party to perform this function for him, the cost is an obligation of the Federal lessee. Further, it makes no difference whether the lessee transfers title to the gas at the wellhead meter for a price reflecting a reduction from the market price by the amount of the gathering and compression costs or whether the lessee retains title and pays a contractor to undertake this function. Case law clearly establishes that Beartooth's sale of gas to Mesa does not compel a finding that the gas was in marketable condition at the time of sale. Big Piney Oil & Gas Co., A-29895 (July 27, 1964)(compression and gathering costs incurred after sale of gas to operator of gathering system were not deductible); Placid Oil Co., 70 I.D. 438 (1963)(transfer of title did not alter nondeductible of certain expenses incurred thereafter); cf. Arco Oil & Gas Co., 109 IBLA 34 (1989) (the point of first "sale" is generally an indication of the existence of a market, but the transfer of title to oil at an offshore platform may not establish a market at that point where the oil was subsequently transported to market by pipeline and held for the account of the producer).

The principles set forth in The Texas Co. case have been upheld by the courts. In California Co. v. Udall, supra, the operator of a Federal oil and gas lease produced gas that it sold for 12 cents per thousand cubic feet (mcf). The contract of sale called for gas produced from the wells conditioned as necessary to meet certain specifications required to make the gas suitable for pipeline transmission. Maximum water content and liquefiable hydrocarbons were specified in the contract, and the parties further provided that the gas would be delivered at pipeline pressure.

California Company, the operator, spent 5.05 cents per mcf in making the gas suitable for pipeline transmission and paid royalty upon the difference between its sale proceeds (12 cents per mcf) and its post production costs (5.05 cents per mcf). 7/ The Secretary disagreed and billed California Company for royalties based upon 12 cents per mcf. The court held that section 17 of the Mineral Leasing Act, 30 U.S.C. § 226(c) (1988), required a Federal lessee to pay a royalty of 12-1/2 percent on the value of production. 296 F.2d at 386-87.

The Court of Appeals for the District of Columbia Circuit found that California Company was required by regulation to market the gas removed from its leasehold. Because of this duty to market (and not merely sell) the gas, the court held that the Secretary could reasonably construe the statutory term "production" to mean gas conditioned for market. Gas conditioned for market was gas that satisfied market specifications for water content, liquefiable hydrocarbons, and compression, such as those set

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7/ California Co. v. Seaton, 187 F. Supp. 445, 447 (D.D.C. 1960), sets forth in detail the calculation used by California Company in valuing production at 6.95 cents per mcf (12 cents per mcf less 5.05 cents per mcf).

forth in the sales contract of California Company. 296 F.2d at 388. The Secretary's valuation of production at 12 cents per mcf was, accordingly, affirmed.

Key to the relevance of the Circuit Court's holding in resolving Beartooth's appeal is the following paragraph from the court's opinion:

> The premise for the Secretary's decision in the case before us was that, since the lessee was obliged to market the product, he was obligated to put it in marketable condition; and that the "production" was the product in marketable condition. Theoretically, any gas--any "production" --is "marketable". We can assume that, if the price were low enough to justify capital expenditures for conditioning equipment, someone would undertake to buy low pressure gas having a high water and hydrocarbon content. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between "marketing" and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition it comes from the wells. The only market, as far as this record shows, was for this gas at certain pressure and certain minimum water and hydrocarbon content. [Footnote omitted.]

296 F.2d at 387-88. Although the appellant seeks to distinguish the present case on the basis that the gas was marketed near the wellhead, we find that this does not constitute marketing of the gas. Regardless of the fact the gas could be sold at this point to the operator of the field gathering system and the compressor plant necessary to introduce the gas into a pipeline (other than a low-pressure gathering system pipeline), we cannot uphold this effort to place the cost of production of gas in "marketable condition" on the lessor. Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of "sale" from "marketing" of gas production, it is also evident from cases such as Big Piney Oil & Gas Co., supra, and Placid Oil Co., supra, that deductions from market value for costs of gathering and compression necessary to market the gas are not allowable even where incurred after transfer of title from the lessee. Recent litigation has confirmed that the "Marketable Condition Rule" requires valuation of gas production without deduction of the costs of gathering and compressing the gas necessary to place the gas in marketable condition. Mesa Operating Ltd. v. U.S. Department of the Interior, 931 F.2d 318, 325 (5th Cir. 1991); see Shoshone Indian Tribe v. Hodel, 903 F.2d 784 (10th Cir. 1990).

A second issue regarding compression costs is also present in this appeal. In his February 5, 1990, decision, the Director found that Beartooth had improperly deducted from gross proceeds a rental charge that

Beartooth itself had incurred for a compressor used on its Bryson Canyon #17 well. The Director held that such a deduction was improper because gas production should be valued at market price without a deduction for compression costs. In its SOR, Beartooth notes that it was required for a period of time to rent a compressor on its Bryson Canyon # 17 well in order to meet the Mesa line pressure. Mesa's line pressure was prohibiting this well from producing. Absent this compression, Beartooth states, no gas could have been produced from this well and the United States would have received no royalty.

Beartooth argues that the Director's decision violates 30 CFR 206.103 (1987), which requires MMS to give due consideration to the price received by the lessee and "other relevant matters." The Director's position ignores the "other relevant matters" criteria, appellant states, and is inconsistent with commonly accepted industry practice. As an example of this industry practice, appellant cites Piney Woods School v. Shell Oil Co., 539 F. Supp. 957 (S.D. Miss. 1982), for the proposition that a lessor should share in the costs incurred by the lessee in processing and transporting gas in fulfillment of its marketing responsibilities. Further, appellant cites Parker v. TXO Production Corp., 716 S.W.2d 644, 648 (Tex. Ct. App. 1986), in support of its contention that the compression charges should be allowed as a deduction against royalty valuation. 8/

In response to appellant's argument, counsel for MMS correctly points out that NTL-5 was a duly promulgated rule of the Department at all relevant times. 9/ This rule provided in pertinent part: "[N]o deductions will be allowed for the uncompensated cost of placing the gas into marketable condition." 42 FR at 22611.

8/ Appellant cites, in particular, the following language from the decision:

"The crucial question is whether TXO's compression was a 'production cost' or a 'marketing cost.' Production costs are the expenses incurred in exploring for mineral substances and in bringing them to the surface. Absent an express term to the contrary in the lease, these costs are not chargeable to the non-operating royalty interest. Costs incurred after production of the gas or minerals are normally proportionately borne by both the operator and the royalty interest owners. See 3 H. Williams & C. Meyers, The Law of Oil & Gas § 645.2 (1985). These 'subsequent to production' costs include the expenses of compressing gas to make it deliverable into a purchaser's pipeline."

Parker v. TXO Production Corp., 716 S.W.2d at 648.

9/ In support, counsel writes:

"In 1987, when Congress enacted the Notice to Lessees Numbered 5 Gas Royalty Act of 1987, Pub. L. No. 100-234, 101 Stat. 1719 (1988), it expressly found that 'NTL-5 was a duly promulgated rule of the Department of the Interior within the meaning of the Administrative Procedure Act.' Id. at section 1(b)(2)" (Answer, Aug. 8, 1990, at 4). See also 43 CFR 3162.1(a) requiring an operator to comply with all NTL's. This regulation was effective Nov. 26, 1982.

It is clear from the record that the rental charges for the Bryson Canyon #17 well compressor were incurred to place appellant's gas in marketable condition. The compressor, as noted above, enabled Beartooth to move its gas from the Bryson Canyon #17 well into the pipeline. Under the provisions of NTL-5 the Board cannot allow a deduction of these charges. Cases such as those cited by appellant involving application of state law to production from non-Federal leases do not support a different result in this case involving valuation of production from Federal leases. Mesa Operating Ltd. v. U.S. Department of the Interior, supra at 325 n.48. 10/

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision of the Director, Minerals Management Service, is affirmed.

C. Randall Grant, Jr.
Administrative Judge

I concur:

John H. Kelly
Administrative Judge

10/ In upholding the Federal marketable condition rule "that marketing costs cannot be deducted from the gross proceeds, equal to the value of production, before royalty is calculated," the court expressly declined a request from Mesa to "import commonly understood meanings of lease terms from cases decided in the state courts of this Circuit." 931 F.2d at 325 n.48 (emphasis in original).

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IBLA 91-93	:	MMS-87-0187-O&G
	:	
BEARTOOTH OIL AND GAS CO.	:	Oil and Gas Royalty
	:	
	:	Affirmed

ORDER

Beartooth Oil and Gas Company has appealed from the September 17, 1990, decision of the Director, Minerals Management Service (MMS), denying its appeals from orders of the Royalty Management Program, directing it to pay additional royalties and late payments for residue gas, natural gas liquids, and sulfur. Beartooth based its royalty payments on the amounts received under an agreement with Koch Hydrocarbon Company, i.e., 60 percent of the sales proceeds of the natural gas liquids, sulfur, and residue gas, less fees for compression, electrical power, and treatment. MMS concluded that Beartooth should have valued its production at an amount equal to the full value of the residue gas plus one-third the value of natural gas liquids and sulfur.

In its statement of reasons, Beartooth raises virtually the same arguments we rejected in other appeals from MMS decisions assessing additional royalties where the appellants had similarly valued their production on the amounts received from Koch under similar agreements. Ladd Petroleum Corp., 127 IBLA 163 (1993); Apache Corp., 127 IBLA 125 (1993); Amoco Production Co., 126 IBLA 124 (1993); Kerr-McGee Corp., 125 IBLA 279 (1993). MMS found the issues in this appeal to be similar and filed the same answer that it filed in Apache.

In affirming MMS in those appeals, we referred to the two regulations governing royalty for residue gas and other products that were in effect at the time that the disputed transactions took place, 30 CFR 206.105 and 30 CFR 206.106 (1987). Those regulations provided for valuation based on gross proceeds accruing to the lessee, or the aggregate value of all commodities, including residue gas, whichever is greater. 30 CFR 206.105(c) (1987). Rather than assess royalty on the full value of casinghead or natural gasoline, butane, propane, or other liquid hydrocarbons, with provision for a manufacturing allowance, the regulations provided for a royalty on one-third the value of such products, thereby allowing two-thirds of the value as an allowance for the cost of manufacture. See 30 CFR 206.106 (1987). Those regulations likewise control the disposition of this appeal.

In the other appeals, we concluded that MMS properly applied those regulations. For the reasons set forth in those decisions, we conclude the same here. To the extent Beartooth has raised arguments not specifically addressed herein, they have been considered and rejected.

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is affirmed.

John H. Kelly
Administrative Judge

I concur:

R. W. Mullen
Administrative Judge

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Syllabus

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SUPREME COURT OF THE UNITED STATES

Syllabus

FEDERAL COMMUNICATIONS COMMISSION ET AL. *v.* FOX TELEVISION STATIONS, INC., ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

No. 07–582. Argued November 4, 2008—Decided April 28, 2009

Federal law bans the broadcasting of "any . . . indecent . . . language," 18 U. S. C. §1464, which includes references to sexual or excretory activity or organs, see *FCC* v. *Pacifica Foundation*, 438 U. S. 726. Having first defined the prohibited speech in 1975, the Federal Communications Commission (FCC) took a cautious, but gradually expanding, approach to enforcing the statutory prohibition. In 2004, the FCC's *Golden Globes Order* declared for the first time that an expletive (nonliteral) use of the F-Word or the S-Word could be actionably indecent, even when the word is used only once.

This case concerns isolated utterances of the F- and S-Words during two live broadcasts aired by Fox Television Stations, Inc. In its order upholding the indecency findings, the FCC, *inter alia,* stated that the *Golden Globes Order* eliminated any doubt that fleeting expletives could be actionable; declared that under the new policy, a lack of repetition weighs against a finding of indecency, but is not a safe harbor; and held that both broadcasts met the new test because one involved a literal description of excrement and both invoked the F-Word. The order did not impose sanctions for either broadcast. The Second Circuit set aside the agency action, declining to address the constitutionality of the FCC's action but finding the FCC's reasoning inadequate under the Administrative Procedure Act (APA).

Held: The judgment is reversed, and the case is remanded.

489 F. 3d 444, reversed and remanded.

JUSTICE SCALIA delivered the opinion of the Court, except as to Part III–E, concluding:

1. The FCC's orders are neither "arbitrary" nor "capricious" within

the meaning of the APA, 5 U. S. C. §706(2)(A). Pp. 9–19.

(a) Under the APA standard, an agency must "examine the relevant data and articulate a satisfactory explanation for its action." *Motor Vehicle Mfrs. Assn. of United States, Inc.* v. *State Farm Mut. Automobile Ins. Co.*, 463 U. S. 29, 43. In overturning the FCC's judgment, the Second Circuit relied in part on its precedent interpreting the APA and *State Farm* to require a more substantial explanation for agency action that changes prior policy. There is, however, no basis in the Act or this Court's opinions for a requirement that all agency change be subjected to more searching review. Although an agency must ordinarily display awareness that it *is* changing position, see *United States* v. *Nixon*, 418 U. S. 683, 696, and may sometimes need to account for prior factfinding or certain reliance interests created by a prior policy, it need not demonstrate to a court's satisfaction that the reasons for the new policy are *better* than the reasons for the old one. It suffices that the new policy is permissible under the statute, that there are good reasons for it, and that the agency *believes* it to be better, which the conscious change adequately indicates. Pp. 9–12.

changes in policy

(b) Under these standards, the FCC's new policy and its order finding the broadcasts at issue actionably indecent were neither arbitrary nor capricious. First, the FCC forthrightly acknowledged that its recent actions have broken new ground, taking account of inconsistent prior FCC and staff actions, and explicitly disavowing them as no longer good law. The agency's reasons for expanding its enforcement activity, moreover, were entirely rational. Even when used as an expletive, the F-Word's power to insult and offend derives from its sexual meaning. And the decision to look at the patent offensiveness of even isolated uses of sexual and excretory words fits with *Pacifica*'s context-based approach. Because the FCC's prior safe-harbor-for-single-words approach would likely lead to more widespread use, and in light of technological advances reducing the costs of bleeping offending words, it was rational for the agency to step away from its old regime. The FCC's decision not to impose sanctions precludes any argument that it is arbitrarily punishing parties without notice of their actions' potential consequences. Pp. 13–15.

(c) None of the Second Circuit's grounds for finding the FCC's action arbitrary and capricious is valid. First, the FCC did not need empirical evidence proving that fleeting expletives constitute harmful "first blows" to children; it suffices to know that children mimic behavior they observe. Second, the court of appeals' finding that fidelity to the FCC's "first blow" theory would require a categorical ban on *all* broadcasts of expletives is not responsive to the actual policy under review since the FCC has always evaluated the patent offensive-

ness of words and statements in relation to the context in which they were broadcast. The FCC's decision to retain some discretion in less egregious cases does not invalidate its regulation of the broadcasts under review. Third, the FCC's prediction that a *per se* exemption for fleeting expletives would lead to their increased use merits deference and makes entire sense. Pp. 15–18.

(d) Fox's additional arguments are not tenable grounds for affirmance. Fox misconstrues the agency's orders when it argues that that the new policy is a presumption of indecency for certain words. It reads more into *Pacifica* than is there by arguing that the FCC failed adequately to explain how this regulation is consistent with that case. And Fox's argument that the FCC's repeated appeal to "context" is a smokescreen for a standardless regime of unbridled discretion ignores the fact that the opinion in *Pacifica* endorsed a context-based approach. Pp. 18–19.

2. Absent a lower court opinion on the matter, this Court declines to address the FCC orders' constitutionality. P. 26.

SCALIA, J., announced the judgment of the Court and delivered the opinion of the Court with respect to Parts I, II, III–A through III–D, and IV, in which ROBERTS, C. J., and KENNEDY, THOMAS, and ALITO, JJ., joined, and an opinion with respect to Part III–E, in which ROBERTS, C. J., and THOMAS and ALITO, JJ., joined. THOMAS, J., filed a concurring opinion. KENNEDY, J., filed an opinion concurring in part and concurring in the judgment. STEVENS, J., and GINSBURG, J., filed dissenting opinions. BREYER, J., filed a dissenting opinion, in which STEVENS, SOUTER, and GINSBURG, JJ., joined.

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SUPREME COURT OF THE UNITED STATES

No. 07–582

FEDERAL COMMUNICATIONS COMMISSION, ET AL., PETITIONERS *v.* FOX TELEVISION STATIONS, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

[April 28, 2009]

JUSTICE SCALIA delivered the opinion of the Court, except as to Part III–E.

Federal law prohibits the broadcasting of "any . . . indecent . . . language," 18 U. S. C. §1464, which includes expletives referring to sexual or excretory activity or organs, see *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978). This case concerns the adequacy of the Federal Communications Commission's explanation of its decision that this sometimes forbids the broadcasting of indecent expletives even when the offensive words are not repeated.

I. Statutory and Regulatory Background

The Communications Act of 1934, 48 Stat. 1064, 47 U. S. C. §151 *et seq.* (2000 ed. and Supp. V), established a system of limited-term broadcast licenses subject to various "conditions" designed "to maintain the control of the United States over all the channels of radio transmission," §301 (2000 ed.). Twenty-seven years ago we said that "[a] licensed broadcaster is granted the free and exclusive use of a limited and valuable part of the public domain; when he accepts that franchise it is burdened by enforceable

public obligations." *CBS, Inc.* v. *FCC*, 453 U. S. 367, 395 (1981) (internal quotation marks omitted).

One of the burdens that licensees shoulder is the indecency ban—the statutory proscription against "utter[ing] any obscene, indecent, or profane language by means of radio communication," 18 U. S. C. §1464—which Congress has instructed the Commission to enforce between the hours of 6 a.m. and 10 p.m. Public Telecommunications Act of 1992, §16(a), 106 Stat. 954, note following 47 U. S. C. §303.[1] Congress has given the Commission various means of enforcing the indecency ban, including civil fines, see §503(b)(1), and license revocations or the denial of license renewals, see §§309(k), 312(a)(6).

The Commission first invoked the statutory ban on indecent broadcasts in 1975, declaring a daytime broadcast of George Carlin's "Filthy Words" monologue actionably indecent. *Pacifica Foundation*, 56 F. C. C. 2d 94. At that time, the Commission announced the definition of indecent speech that it uses to this day, prohibiting "language that describes, in terms patently offensive as measured by contemporary community standards for the broadcast medium, sexual or excretory activities or organs, at times of the day when there is a reasonable risk that children may be in the audience." *Id.*, at 98.

In *FCC* v. *Pacifica Foundation*, *supra*, we upheld the Commission's order against statutory and constitutional challenge. We rejected the broadcasters' argument that

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[1] The statutory prohibition applicable to commercial radio and television stations extends by its terms from 6 a.m. to 12 midnight. The Court of Appeals for the District of Columbia Circuit held, however, that because "Congress and the Commission [had] backed away from the consequences of their own reasoning," by allowing some public broadcasters to air indecent speech after 10 p.m., the court was forced "to hold that the section is unconstitutional insofar as it bars the broadcasting of indecent speech between the hours of 10:00 p.m. and midnight." *Action for Children's Television* v. *FCC*, 58 F. 3d 654, 669 (1995) (en banc), cert. denied, 516 U. S. 1043 (1996).

the statutory proscription applied only to speech appealing to the prurient interest, noting that "the normal definition of 'indecent' merely refers to nonconformance with accepted standards of morality." *Id.*, at 740. And we held that the First Amendment allowed Carlin's monologue to be banned in light of the "uniquely pervasive presence" of the medium and the fact that broadcast programming is "uniquely accessible to children." *Id.*, at 748–749.

In the ensuing years, the Commission took a cautious, but gradually expanding, approach to enforcing the statutory prohibition against indecent broadcasts. Shortly after *Pacifica*, 438 U. S. 726, the Commission expressed its "inten[tion] strictly to observe the narrowness of the *Pacifica* holding," which "relied in part on the repetitive occurrence of the 'indecent' words" contained in Carlin's monologue. *In re Application of WGBH Educ. Foundation*, 69 F. C. C. 2d 1250, 1254, ¶10 (1978). When the full Commission next considered its indecency standard, however, it repudiated the view that its enforcement power was limited to "deliberate, repetitive use of the seven words actually contained in the George Carlin monologue." *In re Pacifica Foundation, Inc.*, 2 FCC Rcd. 2698, 2699, ¶12 (1987). The Commission determined that such a "highly restricted enforcement standard . . . was unduly narrow as a matter of law and inconsistent with [the Commission's] enforcement responsibilities under Section 1464." *In re Infinity Broadcasting Corp. of Pa.*, 3 FCC Rcd. 930, ¶5 (1987). The Court of Appeals for the District of Columbia Circuit upheld this expanded enforcement standard against constitutional and Administrative Procedure Act challenge. See *Action for Children's Television* v. *FCC*, 852 F. 2d 1332 (1988) (R. Ginsburg, J.), superseded in part by *Action for Children's Television* v. *FCC*, 58 F. 3d 654 (1995) (en banc).

Although the Commission had expanded its enforcement beyond the "repetitive use of specific words or phrases," it

preserved a distinction between literal and nonliteral (or "expletive") uses of evocative language. *In re Pacifica Foundation, Inc.*, 2 FCC Rcd., at 2699, ¶13. The Commission explained that each literal "description or depiction of sexual or excretory functions must be examined in context to determine whether it is patently offensive," but that "deliberate and repetitive use . . . is a requisite to a finding of indecency" when a complaint focuses solely on the use of nonliteral expletives. *Ibid.*

Over a decade later, the Commission emphasized that the "full context" in which particular materials appear is "critically important," but that a few "principal" factors guide the inquiry, such as the "explicitness or graphic nature" of the material, the extent to which the material "dwells on or repeats" the offensive material, and the extent to which the material was presented to "pander," to "titillate," or to "shock." *In re Industry Guidance On the Commission's Case Law Interpreting 18 U. S. C. §1464 and Enforcement Policies Regarding Broadcast Indecency*, 16 FCC Rcd. 7999, 8002, ¶9, 8003, ¶10 (2001) (emphasis deleted). "No single factor," the Commission said, "generally provides the basis for an indecency finding," but "where sexual or excretory references have been made once or have been passing or fleeting in nature, this characteristic has tended to weigh against a finding of indecency." *Id.*, at 8003, ¶10, 8008, ¶17.

In 2004, the Commission took one step further by declaring for the first time that a nonliteral (expletive) use of the F- and S-Words could be actionably indecent, even when the word is used only once. The first order to this effect dealt with an NBC broadcast of the Golden Globe Awards, in which the performer Bono commented, "'This is really, really, f***ing brilliant.'" *In re Complaints Against Various Broadcast Licensees Regarding Their Airing of the "Golden Globe Awards" Program,* 19 FCC Rcd. 4975, 4976, n. 4 (2004) *(Golden Globes Order).* Al-

though the Commission had received numerous complaints directed at the broadcast, its enforcement bureau had concluded that the material was not indecent because "Bono did not describe, in context, sexual or excretory organs or activities and . . . the utterance was fleeting and isolated." *Id.,* at 4975–4976, ¶3. The full Commission reviewed and reversed the staff ruling.

The Commission first declared that Bono's use of the F-Word fell within its indecency definition, even though the word was used as an intensifier rather than a literal descriptor. "[G]iven the core meaning of the 'F-Word,'" it said, "any use of that word . . . inherently has a sexual connotation." *Id.*, at 4978, ¶8. The Commission determined, moreover, that the broadcast was "patently offensive" because the F-Word "is one of the most vulgar, graphic and explicit descriptions of sexual activity in the English language," because "[i]ts use invariably invokes a coarse sexual image," and because Bono's use of the word was entirely "shocking and gratuitous." *Id.*, at 4979, ¶9.

The Commission observed that categorically exempting such language from enforcement actions would "likely lead to more widespread use." *Ibid.* Commission action was necessary to "safeguard the well-being of the nation's children from the most objectionable, most offensive language." *Ibid.* The order noted that technological advances have made it far easier to delete ("bleep out") a "single and gratuitous use of a vulgar expletive," without adulterating the content of a broadcast. *Id.*, at 4980, ¶11.

The order acknowledged that "prior Commission and staff action have indicated that isolated or fleeting broadcasts of the 'F-Word' . . . are not indecent or would not be acted upon." It explicitly ruled that "any such interpretation is no longer good law." *Ibid.,* ¶12. It "clarif[ied] . . . that the mere fact that specific words or phrases are not sustained or repeated does not mandate a finding that material that is otherwise patently offensive to the broad-

cast medium is not indecent." *Ibid.* Because, however, "existing precedent would have permitted this broadcast," the Commission determined that "NBC and its affiliates necessarily did not have the requisite notice to justify a penalty." *Id.*, at 4981–4982, ¶15.

II. The Present Case

This case concerns utterances in two live broadcasts aired by Fox Television Stations, Inc., and its affiliates prior to the Commission's *Golden Globes Order*. The first occurred during the 2002 Billboard Music Awards, when the singer Cher exclaimed, "I've also had critics for the last 40 years saying that I was on my way out every year. Right. So f*** 'em." Brief for Petitioners 9. The second involved a segment of the 2003 Billboard Music Awards, during the presentation of an award by Nicole Richie and Paris Hilton, principals in a Fox television series called "The Simple Life." Ms. Hilton began their interchange by reminding Ms. Richie to "watch the bad language," but Ms. Richie proceeded to ask the audience, "Why do they even call it 'The Simple Life?' Have you ever tried to get cow s*** out of a Prada purse? It's not so f***ing simple." *Id.*, at 9–10. Following each of these broadcasts, the Commission received numerous complaints from parents whose children were exposed to the language.

On March 15, 2006, the Commission released Notices of Apparent Liability for a number of broadcasts that the Commission deemed actionably indecent, including the two described above. *In re Complaints Regarding Various Television Broadcasts Between February 2, 2002 and March 8, 2005,* 21 FCC Rcd. 2664 (2006). Multiple parties petitioned the Court of Appeals for the Second Circuit for judicial review of the order, asserting a variety of constitutional and statutory challenges. Since the order had declined to impose sanctions, the Commission had not previously given the broadcasters an opportunity to re-

spond to the indecency charges. It therefore requested and obtained from the Court of Appeals a voluntary remand so that the parties could air their objections. 489 F. 3d 444, 453 (2007). The Commission's order on remand upheld the indecency findings for the broadcasts described above. See *In re Complaints Regarding Various Television Broadcasts Between February 2, 2002, and March 8, 2005*, 21 FCC Rcd. 13299 (2006) *(Remand Order)*.

The order first explained that both broadcasts fell comfortably within the subject-matter scope of the Commission's indecency test because the 2003 broadcast involved a literal description of excrement and both broadcasts invoked the "F-Word," which inherently has a sexual connotation. *Id.*, at 13304, ¶16, 13323, ¶58. The order next determined that the broadcasts were patently offensive under community standards for the medium. Both broadcasts, it noted, involved entirely gratuitous uses of "one of the most vulgar, graphic, and explicit words for sexual activity in the English language." *Id.*, at 13305, ¶17, 13324, ¶59. It found Ms. Richie's use of the "F-Word" and her "explicit description of the handling of excrement" to be "vulgar and shocking," as well as to constitute "pandering," after Ms. Hilton had playfully warned her to "'watch the bad language.'" *Id.*, at 13305, ¶17. And it found Cher's statement patently offensive in part because she metaphorically suggested a sexual act as a means of expressing hostility to her critics. *Id.*, at 13324, ¶60. The order relied upon the "critically important" context of the utterances, *id.*, at 13304, ¶15, noting that they were aired during prime-time awards shows "designed to draw a large nationwide audience that could be expected to include many children interested in seeing their favorite music stars," *id.*, at 13305, ¶18, 13324, ¶59. Indeed, approximately 2.5 million minors witnessed each of the broadcasts. *Id.*, at 13306, ¶18, 13326, ¶65.

The order asserted that both broadcasts under review

would have been actionably indecent under the staff rulings and Commission dicta in effect prior to the *Golden Globes Order*—the 2003 broadcast because it involved a literal description of excrement, rather than a mere expletive, because it used more than one offensive word, and because it was planned, 21 FCC Rcd., at 13307, ¶22; and the 2002 broadcast because Cher used the F-Word not as a mere intensifier, but as a description of the sexual act to express hostility to her critics, *id.*, at 13324, ¶60. The order stated, however, that the pre-*Golden Globes* regime of immunity for isolated indecent expletives rested only upon staff rulings and Commission dicta, and that the Commission itself had never held "that the isolated use of an expletive . . . was not indecent or could not be indecent," 21 FCC Rcd., at 13307, ¶21. In any event, the order made clear, the *Golden Globes Order* eliminated any doubt that fleeting expletives could be actionably indecent, 21 FCC Rcd., at 13308, ¶23, 13325, ¶61, and the Commission disavowed the bureau-level decisions and its own dicta that had said otherwise, *id.*, at 13306–13307, ¶¶20, 21. Under the new policy, a lack of repetition "weigh[s] against a finding of indecency," *id.*, at 13325, ¶61, but is not a safe harbor.

The order explained that the Commission's prior "strict dichotomy between 'expletives' and 'descriptions or depictions of sexual or excretory functions' is artificial and does not make sense in light of the fact that an 'expletive's' power to offend derives from its sexual or excretory meaning." *Id.*, at 13308, ¶23. In the Commission's view, "granting an automatic exemption for 'isolated or fleeting' expletives unfairly forces viewers (including children)" to take "'the first blow'" and would allow broadcasters "to air expletives at all hours of a day so long as they did so one at a time." *Id.*, at 13309, ¶25. Although the Commission determined that Fox encouraged the offensive language by using suggestive scripting in the 2003 broadcast, and

unreasonably failed to take adequate precautions in both broadcasts, *id.*, at 13311–13314, ¶¶31–37, the order again declined to impose any forfeiture or other sanction for either of the broadcasts, *id.*, at 13321, ¶53, 13326, ¶66.

Fox returned to the Second Circuit for review of the *Remand Order*, and various intervenors including CBS, NBC, and ABC joined the action. The Court of Appeals reversed the agency's orders, finding the Commission's reasoning inadequate under the Administrative Procedure Act. 489 F. 3d 444. The majority was "skeptical that the Commission [could] provide a reasoned explanation for its 'fleeting expletive' regime that would pass constitutional muster," but it declined to reach the constitutional question. *Id.*, at 462. Judge Leval dissented, *id.*, at 467. We granted certiorari, 552 U. S. ___ (2008).

III. Analysis

A. Governing Principles

The Administrative Procedure Act, 5 U. S. C. §551 *et seq.*, which sets forth the full extent of judicial authority to review executive agency action for procedural correctness, see *Vermont Yankee Nuclear Power Corp.* v. *Natural Resources Defense Council, Inc.*, 435 U. S. 519, 545–549 (1978), permits (insofar as relevant here) the setting aside of agency action that is "arbitrary" or "capricious," 5 U. S. C. §706(2)(A). Under what we have called this "narrow" standard of review, we insist that an agency "examine the relevant data and articulate a satisfactory explanation for its action." *Motor Vehicle Mfrs. Assn. of United States, Inc.* v. *State Farm Mut. Automobile Ins. Co.*, 463 U. S. 29, 43 (1983). We have made clear, however, that "a court is not to substitute its judgment for that of the agency," *ibid.*, and should "uphold a decision of less than ideal clarity if the agency's path may reasonably be discerned," *Bowman Transp., Inc.* v. *Arkansas-Best Freight System, Inc.*, 419 U. S. 281, 286 (1974).

In overturning the Commission's judgment, the Court of Appeals here relied in part on Circuit precedent requiring a more substantial explanation for agency action that changes prior policy. The Second Circuit has interpreted the Administrative Procedure Act and our opinion in *State Farm* as requiring agencies to make clear "'why the original reasons for adopting the [displaced] rule or policy are no longer dispositive'" as well as "'why the new rule effectuates the statute as well as or better than the old rule.'" 489 F. 3d, at 456–457 (quoting *New York Council, Assn. of Civilian Technicians* v. *FLRA*, 757 F. 2d 502, 508 (CA2 1985); emphasis deleted). The Court of Appeals for the District of Columbia Circuit has similarly indicated that a court's standard of review is "heightened somewhat" when an agency reverses course. *NAACP* v. *FCC*, 682 F. 2d 993, 998 (1982).

We find no basis in the Administrative Procedure Act or in our opinions for a requirement that all agency change be subjected to more searching review. The Act mentions no such heightened standard. And our opinion in *State Farm* neither held nor implied that every agency action representing a policy change must be justified by reasons more substantial than those required to adopt a policy in the first instance. That case, which involved the rescission of a prior regulation, said only that such action requires "a reasoned analysis for the change beyond that which may be required when an agency *does not act* in the first instance." 463 U. S., at 42 (emphasis added).[2] Treat-

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[2] JUSTICE BREYER's contention that *State Farm* did anything more, *post*, at 4–6 (dissenting opinion), rests upon his failure to observe the italicized phrase and upon a passage quoted in *State Farm* from a plurality opinion in *Atchison, T. & S. F. R. Co.* v. *Wichita Bd. of Trade*, 412 U. S. 800 (1973). That passage referred to "a presumption that [congressional] policies will be carried out best if the settled rule is adhered to." *Id.*, at 807–808 (opinion of Marshall, J.). But the *Atchison* plurality made this statement in the context of requiring the agency to

B. Application to This Case

Judged under the above described standards, the Commission's new enforcement policy and its order finding the broadcasts actionably indecent were neither arbitrary nor capricious. First, the Commission forthrightly acknowledged that its recent actions have broken new ground, taking account of inconsistent "prior Commission and staff action" and explicitly disavowing them as "no longer good law." *Golden Globes Order,* 19 FCC Rcd., at 4980, ¶12. To be sure, the (superfluous) explanation in its *Remand Order* of why the Cher broadcast would even have violated its earlier policy may not be entirely convincing. But that unnecessary detour is irrelevant. There is no doubt that the Commission knew it was making a change. That is why it declined to assess penalties; and it relied on the *Golden Globes Order* as removing any lingering doubt. *Remand Order*, 21 FCC Rcd., at 13308, ¶23, 13325, ¶61.

Moreover, the agency's reasons for expanding the scope of its enforcement activity were entirely rational. It was certainly reasonable to determine that it made no sense to

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trine of constitutional avoidance] where an agency's regulation relies on a plausible but constitutionally suspect interpretation of a statute." *Post*, at 21. The cases he cites, however, set aside an agency regulation because, applying the doctrine of constitutional avoidance to the ambiguous statute under which the agency acted, *the Court* found the agency's interpretation of the statute erroneous. See *Solid Waste Agency of Northern Cook Cty.* v. *Army Corps of Engineers*, 531 U. S. 159, 174 (2001); *NLRB* v. *Catholic Bishop of Chicago*, 440 U. S. 490, 507 (1979). But JUSTICE BREYER does not urge that *we* issue such a holding, evidently agreeing that we should limit our review to what the Court of Appeals decided, see Part IV, *infra*—which included only the adequacy of the Commission's rulemaking procedure, and not the statutory question. Rather, JUSTICE BREYER seeks a "remand [that] would do no more than ask the agency to reconsider its policy decision in light of" constitutional concerns. *Post*, at 21. That strange and novel disposition would be entirely unrelated to the doctrine of constitutional avoidance, and would better be termed the doctrine of judicial arm-twisting or appellate review by the wagged finger.

distinguish between literal and nonliteral uses of offensive words, requiring repetitive use to render only the latter indecent. As the Commission said with regard to expletive use of the F-Word, "the word's power to insult and offend derives from its sexual meaning." *Id.*, at 13323, ¶58. And the Commission's decision to look at the patent offensiveness of even isolated uses of sexual and excretory words fits with the context-based approach we sanctioned in *Pacifica*, 438 U. S., at 750. Even isolated utterances can be made in "pander[ing,] . . . vulgar and shocking" manners, *Remand Order*, 21 FCC Rcd., at 13305, ¶17, and can constitute harmful "'first blow[s]'" to children, *id.*, at 13309, ¶25. It is surely rational (if not inescapable) to believe that a safe harbor for single words would "likely lead to more widespread use of the offensive language," *Golden Globes Order, supra,* at 4979, ¶9.

When confronting other requests for *per se* rules governing its enforcement of the indecency prohibition, the Commission has declined to create safe harbors for particular types of broadcasts. See *In re Pacifica Foundation, Inc.*, 2 FCC Rcd., at 2699, ¶12 (repudiating the view that the Commission's enforcement power was limited to "deliberate, repetitive use of the seven words actually contained in the George Carlin monologue"); *In re Infinity Broadcasting Corp. of Pa.*, 3 FCC Rcd., at 932, ¶17 ("reject[ing] an approach that would hold that if a work has merit, it is *per se* not indecent"). The Commission could rationally decide it needed to step away from its old regime where nonrepetitive use of an expletive was *per se* nonactionable because that was "at odds with the Commission's overall enforcement policy." *Remand Order, supra,* at 13308, ¶23.

The fact that technological advances have made it easier for broadcasters to bleep out offending words further supports the Commission's stepped-up enforcement policy. *Golden Globes Order, supra,* at 4980, ¶11. And the

agency's decision not to impose any forfeiture or other sanction precludes any argument that it is arbitrarily punishing parties without notice of the potential consequences of their action.

C. The Court of Appeals' Reasoning

The Court of Appeals found the Commission's action arbitrary and capricious on three grounds. First, the court criticized the Commission for failing to explain why it had not previously banned fleeting expletives as "harmful 'first blow[s].'" 489 F. 3d, at 458. In the majority's view, without "evidence that suggests a fleeting expletive is harmful [and] . . . serious enough to warrant government regulation," the agency could not regulate more broadly. *Id.,* at 461. As explained above, the fact that an agency had a prior stance does not alone prevent it from changing its view or create a higher hurdle for doing so. And it is not the Commission, but Congress that has proscribed "any . . . indecent . . . language." 18 U. S. C. §1464.

There are some propositions for which scant empirical evidence can be marshaled, and the harmful effect of broadcast profanity on children is one of them. One cannot demand a multiyear controlled study, in which some children are intentionally exposed to indecent broadcasts (and insulated from all other indecency), and others are shielded from all indecency. It is one thing to set aside agency action under the Administrative Procedure Act because of failure to adduce empirical data that can readily be obtained. See, *e.g., State Farm,* 463 U. S., at 46–56 (addressing the costs and benefits of mandatory passive restraints for automobiles). It is something else to insist upon obtaining the unobtainable. Here it suffices to know that children mimic the behavior they observe—or at least the behavior that is presented to them as normal and appropriate. Programming replete with one-word indecent expletives will tend to produce children who use (at

least) one-word indecent expletives. Congress has made the determination that indecent material is harmful to children, and has left enforcement of the ban to the Commission. If enforcement had to be supported by empirical data, the ban would effectively be a nullity.

The Commission had adduced no quantifiable measure of the harm caused by the language in *Pacifica*, and we nonetheless held that the "government's interest in the 'well-being of its youth' . . . justified the regulation of otherwise protected expression." 438 U. S., at 749 (quoting *Ginsberg* v. *New York*, 390 U. S. 629, 640, 639 (1968)). If the Constitution itself demands of agencies no more scientifically certain criteria to comply with the First Amendment, neither does the Administrative Procedure Act to comply with the requirement of reasoned decision-making.

The court's second objection is that fidelity to the agency's "first blow" theory of harm would require a categorical ban on *all* broadcasts of expletives; the Commission's failure to go to this extreme thus undermined the coherence of its rationale. 489 F. 3d, at 458–459. This objection, however, is not responsive to the Commission's actual policy under review—the decision to include patently offensive fleeting expletives within the definition of indecency. The Commission's prior enforcement practice, unchallenged here, already drew distinctions between the offensiveness of particular words based upon the context in which they appeared. Any complaint about the Commission's failure to ban only some fleeting expletives is better directed at the agency's context-based system generally rather than its inclusion of isolated expletives.

More fundamentally, however, the agency's decision to consider the patent offensiveness of isolated expletives on a case-by-case basis is not arbitrary or capricious. "Even a prime-time recitation of Geoffrey Chaucer's Miller's Tale," we have explained, "would not be likely to command the

attention of many children who are both old enough to understand and young enough to be adversely affected." *Pacifica, supra,* at 750, n. 29. The same rationale could support the Commission's finding that a broadcast of the film Saving Private Ryan was not indecent—a finding to which the broadcasters point as supposed evidence of the Commission's inconsistency. The frightening suspense and the graphic violence in the movie could well dissuade the most vulnerable from watching and would put parents on notice of potentially objectionable material. See *In re Complaints Against Various Television Licensees Regarding Their Broadcast on Nov. 11, 2004 of the ABC Television Network's Presentation of the Film "Saving Private Ryan,"* 20 FCC Rcd. 4507, 4513, ¶15 (2005) (noting that the broadcast was not "intended as family entertainment"). The agency's decision to retain some discretion does not render arbitrary or capricious its regulation of the deliberate and shocking uses of offensive language at the award shows under review—shows that were expected to (and did) draw the attention of millions of children.

Finally, the Court of Appeals found unconvincing the agency's prediction (without any evidence) that a *per se* exemption for fleeting expletives would lead to increased use of expletives one at a time. 489 F. 3d, at 460. But even in the absence of evidence, the agency's predictive judgment (which merits deference) makes entire sense. To predict that complete immunity for fleeting expletives, ardently desired by broadcasters, will lead to a substantial increase in fleeting expletives seems to us an exercise in logic rather than clairvoyance. The Court of Appeals was perhaps correct that the Commission's prior policy had not yet caused broadcasters to "barrag[e] the airwaves with expletives," *ibid.* That may have been because its prior permissive policy had been confirmed (save in dicta) only at the staff level. In any event, as the *Golden Globes* order demonstrated, it did produce more expletives than the

Commission (which has the first call in this matter) deemed in conformity with the statute.

D. Respondents' Arguments

Respondents press some arguments that the court did not adopt. They claim that the Commission failed to acknowledge its change in enforcement policy. That contention is not tenable in light of the *Golden Globes Order*'s specific declaration that its prior rulings were no longer good law, 19 FCC Rcd., at 4980, ¶12, and the *Remand Order*'s disavowal of those staff rulings and Commission dicta as "seriously flawed," 21 FCC Rcd., at 13308, ¶23. The broadcasters also try to recharacterize the nature of the Commission's shift, contending that the old policy was not actually a *per se* rule against liability for isolated expletives and that the new policy is a presumption of indecency for certain words. This description of the prior agency policy conflicts with the broadcasters' own prior position in this case. See, *e.g.*, Brief in Opposition for Respondent Fox Television Stations, Inc., et al. 4 ("For almost 30 years following Pacifica, the FCC did not consider fleeting, isolated or inadvertent expletives to be indecent"). And we find no basis for the contention that the Commission has now adopted a presumption of indecency; its repeated reliance on context refutes this claim.

The broadcasters also make much of the fact that the Commission has gone beyond the scope of authority approved in *Pacifica*, which it once regarded as the farthest extent of its power. But we have never held that *Pacifica* represented the outer limits of permissible regulation, so that fleeting expletives *may not* be forbidden. To the contrary, we explicitly left for another day whether "an occasional expletive" in "a telecast of an Elizabethan comedy" could be prohibited. 438 U. S., at 748. By using the narrowness of *Pacifica*'s holding to require empirical evidence of harm before the Commission regulates more

broadly, the broadcasters attempt to turn the sword of *Pacifica*, which allowed *some* regulation of broadcast indecency, into an administrative-law shield preventing any regulation beyond what *Pacifica* sanctioned. Nothing prohibits federal agencies from moving in an incremental manner. Cf. *National Cable & Telecommunications Assn.* v. *Brand X Internet Services*, 545 U. S. 967, 1002 (2005).

Finally, the broadcasters claim that the Commission's repeated appeal to "context" is simply a smokescreen for a standardless regime of unbridled discretion. But we have previously approved Commission regulation based "on a nuisance rationale under which context is all-important," *Pacifica*, *supra*, at 750, and we find no basis in the Administrative Procedure Act for mandating anything different.

E. The Dissents' Arguments

JUSTICE BREYER purports to "begin with applicable law," *post*, at 1, but in fact begins by stacking the deck. He claims that the FCC's status as an "independent" agency sheltered from political oversight requires courts to be "all the more" vigilant in ensuring "that major policy decisions be based upon articulable reasons." *Post*, at 1, 2. Not so. The independent agencies are sheltered not from politics but from the President, and it has often been observed that their freedom from presidential oversight (and protection) has simply been replaced by increased subservience to congressional direction. See, *e.g.*, *In re Sealed Case*, 838 F. 2d 476, 507–508 (CADC) (Silberman, J.), rev'd *sub nom.* *Morrison* v. *Olson*, 487 U. S. 654 (1988); Kagan, Presidential Administration, 114 Harv. L. Rev. 2245, 2271, n. 93 (2001); Calabresi & Prakash, The President's Power to Execute the Laws, 104 Yale L. J. 541, 583 (1994); Easterbrook, The State of Madison's Vision of the State: A Public Choice Perspective, 107 Harv. L. Rev. 1328, 1341 (1994). Indeed, the precise policy change at issue here was

spurred by significant political pressure from Congress.[4]

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[4] A Subcommittee of the FCC's House oversight Committee held hearings on the FCC's broadcast indecency enforcement on January 28, 2004. "Can You Say That on TV?": An Examination of the FCC's Enforcement with respect to Broadcast Indecency, Hearing before the Subcommittee on Telecommunications and the Internet of the House Committee on Energy and Commerce, 108th Cong., 2d Sess. Members of the Subcommittee specifically "called on the full Commission to reverse [the staff ruling in the *Golden Globes* case]" because they perceived a "feeling amongst many Americans that some broadcasters are engaged in a race to the bottom, pushing the decency envelope to distinguish themselves in the increasingly crowded entertainment field." *Id.*, at 2 (statement of Rep. Upton); see also, *e.g.*, *id.*, at 17 (statement of Rep. Terry), 19 (statement of Rep. Pitts). They repeatedly expressed disapproval of the FCC's enforcement policies, see, *e.g.*, *id.*, at 3 (statement of Rep. Upton) ("At some point we have to ask the FCC: How much is enough? When will it revoke a license?"); *id.*, at 4 (statement of Rep. Markey) ("Today's hearing will allow us to explore the FCC's lackluster enforcement record with respect to these violations").

About two weeks later, on February 11, 2004, the same Subcommittee held hearings on a bill increasing the fines for indecency violations. Hearings on H. R 3717 before the Subcommittee on Telecommunications and the Internet of the House Committee on Energy and Commerce, 108th Cong., 2d Sess. All five Commissioners were present and were grilled about enforcement shortcomings. See, *e.g.*, *id.*, at 124 (statement of Rep. Terry) ("Chairman Powell, . . . it seems like common sense that if we had . . . more frequent enforcement instead of a few examples of fines . . . that would be a deterrent in itself"); *id.*, at 7 (statement of Rep. Dingell) ("I see that apparently . . . there is no enforcement of regulations at the FCC"). Certain statements, moreover, indicate that the political pressure applied by Congress had its desired effect. See *ibid.* ("I think our committee's work has gotten the attention of FCC Chairman Powell and the Bush Administration. And I'm happy to see the FCC now being brought to a state of apparent alert on these matters"); see also *id.*, at 124 (statement of Michael Copps, FCC Commissioner) (noting "positive" change in other Commissioners' willingness to step up enforcement in light of proposed congressional action). A version of the bill ultimately became law as the Broadcast Decency Enforcement Act of 2005, 120 Stat. 491.

The FCC adopted the change that is the subject of this litigation on March 3, 2004, about three weeks after this second hearing. See *Golden Globes Order*, 19 FCC Rcd. 4975.

JUSTICE STEVENS apparently recognizes this political control by Congress, and indeed sees it as the manifestation of a principal-agency relationship. In his judgment, the FCC is "better viewed as an agent of Congress" than as part of the Executive. *Post,* at 3 (dissenting opinion). He nonetheless argues that this is a good reason for requiring the FCC to explain "why its prior policy is no longer sound before allowing it to change course." *Post,* at 4. Leaving aside the unconstitutionality of a scheme giving the power to enforce laws to agents of Congress, see *Bowsher* v. *Synar,* 478 U. S. 714, 726 (1986), it seems to us that JUSTICE STEVENS' conclusion does not follow from his premise. If the FCC is indeed an agent of Congress, it would seem an adequate explanation of its change of position that Congress made clear its wishes for stricter enforcement, see n. 4, *supra.*[5] The Administrative Procedure Act, after all, does not apply to Congress and its agencies.[6]

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[5] JUSTICE STEVENS accuses us of equating statements made in a congressional hearing with the intent of Congress. *Post,* at 4, n. 3. In this opinion, we do not. The intent of the full Congress (or at least a majority of each House) is thought relevant to the interpretation of statutes, since they must be passed by the entire Congress. See U. S. Const., Art. I, §7. It is quite irrelevant, however, to the extrastatutory influence Congress exerts over agencies of the Executive Branch, which is exerted by the congressional committees responsible for oversight and appropriations with respect to the relevant agency. That is a major reason why committee assignments are important, and committee chairmanships powerful. Surely JUSTICE STEVENS knows this.

[6] The Administrative Procedure Act defines "agency" to mean "each authority of the Government of the United States," 5 U. S. C. §551(1), but specifically excludes "the Congress," §551(1)(A). The Court of Appeals for the District of Columbia Circuit has "interpreted [this] exemption for 'the Congress' to mean the entire *legislative* branch," *Washington Legal Foundation* v. *United States Sentencing Comm'n,* 17 F. 3d 1446, 1449 (1994); see also *Ethnic Employees of Library of Congress* v. *Boorstin,* 751 F. 2d 1405, 1416, n. 15 (CADC 1985) (holding that the Library of Congress is not an "agency" under the Act).

Regardless, it is assuredly not "applicable law" that rulemaking by independent regulatory agencies is subject to heightened scrutiny. The Administrative Procedure Act, which provides judicial review, makes no distinction between independent and other agencies, neither in its definition of agency, 5 U. S. C. §701(b)(1), nor in the standards for reviewing agency action, §706. Nor does any case of ours express or reflect the "heightened scrutiny" JUSTICE BREYER and JUSTICE STEVENS would impose. Indeed, it is hard to imagine any closer scrutiny than that we have given to the Environmental Protection Agency, which is not an independent agency. See *Massachusetts* v. *EPA*, 549 U. S. 497, 533–535 (2007); *Whitman* v. *American Trucking Assns., Inc.*, 531 U. S. 457, 481–486 (2001). There is no reason to magnify the separation-of-powers dilemma posed by the Headless Fourth Branch, see *Freytag* v. *Commissioner*, 501 U. S. 868, 921 (1991) (SCALIA, J., concurring in part and concurring in judgment), by letting Article III judges—like jackals stealing the lion's kill—expropriate some of the power that Congress has wrested from the unitary Executive.

JUSTICE BREYER and JUSTICE STEVENS rely upon two supposed omissions in the FCC's analysis that they believe preclude a finding that the agency did not act arbitrarily. Neither of these omissions could undermine the coherence of the rationale the agency gave, but the dissenters' evaluation of each is flawed in its own right.

First, both claim that the Commission failed adequately to explain its consideration of the constitutional issues inherent in its regulation, *post*, at 7–11 (opinion of BREYER, J.); *post*, at 4–7 (opinion of STEVENS, J.). We are unaware that we have ever before reversed an executive agency, not for violating our cases, but for failure to discuss them adequately. But leave that aside. According to JUSTICE BREYER, the agency said "next to nothing about the relation between the change it made in its prior 'fleet-

ing expletive' policy and the First-Amendment-related need to avoid 'censorship,'" *post*, at 7–8. The *Remand Order* does, however, devote four full pages of small-type, single-spaced text (over 1,300 words not counting the footnotes) to explaining why the Commission believes that its indecency-enforcement regime (which includes its change in policy) is consistent with the First Amendment—and therefore not censorship as the term is understood. More specifically, JUSTICE BREYER faults the FCC for "not explain[ing] why the agency changed its mind about the line that *Pacifica* draws or its policy's relation to that line," *post*, at 10. But in fact (and as the Commission explained) this Court's holding in *Pacifica*, 438 U. S. 726, drew no constitutional line; to the contrary, it expressly declined to express any view on the constitutionality of prohibiting isolated indecency. JUSTICE BREYER and JUSTICE STEVENS evidently believe that when an agency has obtained this Court's determination that a less restrictive rule is constitutional, its successors acquire some special burden to explain why a more restrictive rule is not *un*constitutional. We know of no such principle.[7]

Second, JUSTICE BREYER looks over the vast field of

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[7] JUSTICE STEVENS criticizes us for "assuming that *Pacifica* endorsed" the enforcement at issue here. *Post*, at 4. We do nothing of the sort. We rely on the fact that certain aspects of the agency's decision mirror the context-based approach *Pacifica* approved, *supra*, at 14, but that goes to our holding on administrative law, and says nothing about constitutionality. JUSTICE STEVENS also argues that heightened deference should be due the FCC's prior policy because the "FCC's initial views . . . reflect the views of the Congress that delegated the Commission authority to flesh out details not fully defined in the enacting statute." *Post*, at 3. We do not believe that the dead hand of a departed Congressional oversight Committee should constrain the discretion that the text of a statute confers—but the point is in any event irrelevant in this appeal, which concerns not whether the agency has exceeded its statutory mandate but whether the reasons for its actions are adequate.

particular factual scenarios unaddressed by the FCC's 35-page *Remand Order* and finds one that is fatal: the plight of the small local broadcaster who cannot afford the new technology that enables the screening of live broadcasts for indecent utterances. Cf. *post,* at 11–16. The Commission has failed to address the fate of this unfortunate, who will, he believes, be subject to sanction.

We doubt, to begin with, that small-town broadcasters run a heightened risk of liability for indecent utterances. In programming that they originate, their down-home local guests probably employ vulgarity less than big-city folks; and small-town stations generally cannot afford or cannot attract foul-mouthed glitteratae from Hollywood. Their main exposure with regard to self-originated programming is live coverage of news and public affairs. But the *Remand Order* went out of its way to note that the case at hand did not involve "breaking news coverage," and that "it may be inequitable to hold a licensee responsible for airing offensive speech during live coverage of a public event," 21 FCC Rcd., at 13311, ¶33. As for the programming that small stations receive on a network "feed": This *will* be cleansed by the expensive technology small stations (by JUSTICE BREYER's hypothesis) cannot afford.

But never mind the detail of whether small broadcasters are uniquely subject to a great risk of punishment for fleeting expletives. The fundamental fallacy of JUSTICE BREYER's small-broadcaster gloomyscenario is its demonstrably false assumption that the *Remand Order* makes no provision for the avoidance of unfairness—that the single-utterance prohibition will be invoked uniformly, in all situations. The *Remand Order* made very clear that this is not the case. It said that in determining "what, if any, remedy is appropriate" the Commission would consider the facts of each individual case, such as the "possibility of human error in using delay equipment," *id.,* at 13313, ¶35.

Thus, the fact that the agency believed that Fox (a large broadcaster that used suggestive scripting and a deficient delay system to air a prime-time awards show aimed at millions of children) "fail[ed] to exercise 'reasonable judgment, responsibility and sensitivity,'" *id.*, at 13311, ¶33, and n. 91 (quoting *Pacifica Foundation, Inc.*, 2 FCC Rcd., at 2700, ¶18), says little about how the Commission would treat smaller broadcasters who cannot afford screening equipment. Indeed, that they would not be punished for failing to purchase equipment they cannot afford is positively suggested by the *Remand Order's* statement that "[h]olding Fox responsible for airing indecent material in this case does not . . . impose undue burdens on broadcasters." 21 FCC Rcd., at 13313, ¶36.

There was, in sum, no need for the Commission to compose a special treatise on local broadcasters.[8] And JUSTICE BREYER can safely defer his concern for those yeomen of the airwaves until we have before us a case that involves one.

IV. Constitutionality

The Second Circuit did not definitively rule on the constitutionality of the Commission's orders, but respondents nonetheless ask us to decide their validity under the First Amendment. This Court, however, is one of final review, "not of first view." *Cutter* v. *Wilkinson*, 544 U. S. 709, 718, n. 7 (2005). It is conceivable that the Commission's orders may cause some broadcasters to avoid certain language that is beyond the Commission's reach under the Consti-

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[8] JUSTICE BREYER posits that the FCC would have been required to give more explanation had it used notice-and-comment rulemaking, which "should lead us to the same conclusion" in this review of the agency's change through adjudication. *Post*, at 17. Even assuming the premise, there is no basis for incorporating all of the Administrative Procedure Act's notice-and-comment procedural requirements into arbitrary-and-capricious review of adjudicatory decisions. Cf. *Vermont Yankee*, 435 U. S., at 545–549.

tution. Whether that is so, and, if so, whether it is unconstitutional, will be determined soon enough, perhaps in this very case. Meanwhile, any chilled references to excretory and sexual material "surely lie at the periphery of First Amendment concern," *Pacifica,* 438 U. S., at 743 (plurality opinion of STEVENS, J.). We see no reason to abandon our usual procedures in a rush to judgment without a lower court opinion. We decline to address the constitutional questions at this time.

* * *

The Second Circuit believed that children today "likely hear this language far more often from other sources than they did in the 1970's when the Commission first began sanctioning indecent speech," and that this cuts against more stringent regulation of broadcasts. 489 F. 3d, at 461. Assuming the premise is true (for this point the Second Circuit did not demand empirical evidence) the conclusion does not necessarily follow. The Commission could reasonably conclude that the pervasiveness of foul language, and the coarsening of public entertainment in other media such as cable, justify more stringent regulation of broadcast programs so as to give conscientious parents a relatively safe haven for their children. In the end, the Second Circuit and the broadcasters quibble with the Commission's policy choices and not with the explanation it has given. We decline to "substitute [our] judgment for that of the agency," *State Farm,* 463 U. S., at 43, and we find the Commission's orders neither arbitrary nor capricious.

The judgment of the United States Court of Appeals for the Second Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

SUPREME COURT OF THE UNITED STATES

No. 07–582

FEDERAL COMMUNICATIONS COMMISSION, ET AL., PETITIONERS *v.* FOX TELEVISION STATIONS, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

[April 28, 2009]

JUSTICE THOMAS, concurring.

I join the Court's opinion, which, as a matter of administrative law, correctly upholds the Federal Communications Commission's (FCC) policy with respect to indecent broadcast speech under the Administrative Procedure Act. I write separately, however, to note the questionable viability of the two precedents that support the FCC's assertion of constitutional authority to regulate the programming at issue in this case. See *Red Lion Broadcasting Co.* v. *FCC*, 395 U. S. 367 (1969); *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978). *Red Lion* and *Pacifica* were unconvincing when they were issued, and the passage of time has only increased doubt regarding their continued validity. "The text of the First Amendment makes no distinctions among print, broadcast, and cable media, but we have done so" in these cases. *Denver Area Ed. Telecommunications Consortium, Inc.* v. *FCC*, 518 U. S. 727, 812 (1996) (THOMAS, J., concurring in judgment in part and dissenting in part).

In *Red Lion*, this Court upheld the so-called "fairness doctrine," a Government requirement "that discussion of public issues be presented on broadcast stations, and that each side of those issues must be given fair coverage." 395 U. S., at 369, 400–401. The decision relied heavily on the

scarcity of available broadcast frequencies. According to the Court, because broadcast spectrum was so scarce, it "could be regulated and rationalized only by the Government. Without government control, the medium would be of little use because of the cacophony of competing voices, none of which could be clearly and predictably heard." *Id.*, at 376. To this end, the Court concluded that the Government should be "permitted to put restraints on licensees in favor of others whose views should be expressed on this unique medium." *Id.*, at 390; see also *id.*, at 389 (concluding that "as far as the First Amendment is concerned those who are licensed stand no better than those to whom licenses are refused"). Applying this principle, the Court held that "[i]t does not violate the First Amendment to treat licensees given the privilege of using scarce radio frequencies as proxies for the entire community, obligated to give suitable time and attention to matters of great public concern." *Id.*, at 394.

Red Lion specifically declined to answer whether the First Amendment authorized the Government's "refusal to permit the broadcaster to carry a particular program or to publish his own views[,] . . . [or] government censorship of a particular program," *id.*, at 396. But then in *Pacifica*, this Court rejected a challenge to the FCC's authority to impose sanctions on the broadcast of indecent material. See 438 U. S., at 729–730, 750–751; *id.*, at 742 (plurality opinion), relying on *Red Lion*, the Court noted that "broadcasting . . . has received the most limited First Amendment protection." 438 U. S., at 748. The Court also emphasized the "uniquely pervasive presence" of the broadcast media in Americans' lives and the fact that broadcast programming was "uniquely accessible to children." *Id.*, at 748–749.

This deep intrusion into the First Amendment rights of broadcasters, which the Court has justified based only on the nature of the medium, is problematic on two levels.

First, instead of looking to first principles to evaluate the constitutional question, the Court relied on a set of transitory facts, *e.g.*, the "scarcity of radio frequencies," *Red Lion, supra*, at 390, to determine the applicable First Amendment standard. But the original meaning of the Constitution cannot turn on modern necessity: "Constitutional rights are enshrined with the scope they were understood to have when the people adopted them, whether or not future legislatures or (yes) even future judges think that scope too broad." *District of Columbia* v. *Heller*, 554 U. S. ___, ___ (2008) (slip op., at 63). In breaching this principle, *Red Lion* adopted, and *Pacifica* reaffirmed, a legal rule that lacks any textual basis in the Constitution. *Denver Area, supra*, at 813 (THOMAS, J., concurring in judgment in part and dissenting in part) ("First Amendment distinctions between media [have been] dubious from their infancy"). Indeed, the logical weakness of *Red Lion* and *Pacifica* has been apparent for some time: "It is certainly true that broadcast frequencies are scarce but it is unclear why that fact justifies content regulation of broadcasting in a way that would be intolerable if applied to the editorial process of the print media." *Telecommunications Research & Action Center* v. *FCC*, 801 F. 2d 501, 508 (CADC 1986) (Bork, J.).

Highlighting the doctrinal incoherence of *Red Lion* and *Pacifica*, the Court has declined to apply the lesser standard of First Amendment scrutiny imposed on broadcast speech to federal regulation of telephone dial-in services, see *Sable Communications of Cal., Inc.* v. *FCC*, 492 U. S. 115, 127–128 (1989), cable television programming, see *Turner Broadcasting System, Inc.* v. *FCC*, 512 U. S. 622, 637 (1994), and the Internet, see *Reno* v. *American Civil Liberties Union*, 521 U. S. 844, 867–868 (1997). "There is no justification for this apparent dichotomy in First Amendment jurisprudence. Whatever the merits of *Pacifica* when it was issued[,] . . . it makes no sense now."

Action for Children's Television v. *FCC*, 58 F. 3d 654, 673 (CADC 1995) (Edwards, C. J., dissenting). The justifications relied on by the Court in *Red Lion* and *Pacifica*—"spectrum scarcity, intrusiveness, and accessibility to children—neither distinguish broadcast from cable, nor explain the relaxed application of the principles of the First Amendment to broadcast." 58 F. 3d, at 673; see also *In re Industry Guidance on Commission's Case Law Interpreting 18 U. S. C. §1464 and Enforcement Policies Regarding Broadcast Indecency*, 16 FCC Rcd. 7999, 8021, n. 11 (2001) (statement of Commissioner Furchtgott-Roth) ("It is ironic that streaming video or audio content from a television or radio station would likely receive more constitutional protection, *see Reno* [v. *American Civil Liberties Union*, 521 U. S. 844 (1997)], than would the same exact content broadcast over-the-air").

Second, even if this Court's disfavored treatment of broadcasters under the First Amendment could have been justified at the time of *Red Lion* and *Pacifica*, dramatic technological advances have eviscerated the factual assumptions underlying those decisions. Broadcast spectrum is significantly less scarce than it was 40 years ago. See Brief for Respondents NBC Universal et al. 37–38 (hereinafter NBC Brief). As NBC notes, the number of over-the-air broadcast stations grew from 7,411 in 1969, when *Red Lion* was issued, to 15,273 by the end of 2004. See NBC Brief 38; see also FCC Media Bureau Staff Research Paper, J. Berresford, The Scarcity Rationale for Regulating Traditional Broadcasting: An Idea Whose Time Has Passed 12–13 (Mar. 2005) (No. 2005–2). And the trend should continue with broadcast television's imminent switch from analog to digital transmission, which will allow the FCC to "stack broadcast channels right beside one another along the spectrum, and ultimately utilize significantly less than the 400 MHz of spectrum the analog system absorbs today." *Consumer Electronics*

Assn. v. *FCC*, 347 F. 3d 291, 294 (CADC 2003).

Moreover, traditional broadcast television and radio are no longer the "uniquely pervasive" media forms they once were. For most consumers, traditional broadcast media programming is now bundled with cable or satellite services. See App. to Pet. for Cert. 107a. Broadcast and other video programming is also widely available over the Internet. See Stelter, Serving Up Television Without the TV Set, N. Y. Times, Mar. 10, 2008, p. C1. And like radio and television broadcasts, Internet access is now often freely available over the airwaves and can be accessed by portable computer, cell phones, and other wireless devices. See May, Charting a New Constitutional Jurisprudence for the Digital Age, 3 Charleston L. Rev. 373, 375 (2009). The extant facts that drove this Court to subject broadcasters to unique disfavor under the First Amendment simply do not exist today. See *In re Industry Guidance, supra*, at 8020 (statement of Commissioner Furchtgott-Roth) ("If rules regulating broadcast content were ever a justifiable infringement of speech, it was because of the relative dominance of that medium in the communications marketplace of the past. As the Commission has long recognized, the facts underlying this justification are no longer true" (footnote omitted)).*

These dramatic changes in factual circumstances might well support a departure from precedent under the prevailing approach to *stare decisis*. See *Planned Parenthood of Southeastern Pa.* v. *Casey*, 505 U. S. 833, 855 (1992) (asking "whether facts have so changed, or come to be seen

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*With respect to reliance by *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978), on the ease with which children could be exposed to indecent television programming, technology has provided innovative solutions to assist adults in screening their children from unsuitable programming—even when that programming appears on broadcast channels. See NBC Brief 43–47 (discussing V-chip technology, which allows targeted blocking of television programs based on content).

so differently, as to have robbed the old rule of significant application or justification"); see also *American Trucking Assns., Inc.* v. *Scheiner*, 483 U. S. 266, 302 (1987) (O'Connor, J., dissenting) ("Significantly changed circumstances can make an older rule, defensible when formulated, inappropriate . . ."). "In cases involving constitutional issues" that turn on a particular set of factual assumptions, "this Court must, in order to reach sound conclusions, feel free to bring its opinions into agreement with experience and with facts newly ascertained." *Burnet* v. *Coronado Oil & Gas Co.*, 285 U. S. 393, 412 (1932) (Brandeis, J., dissenting). For all these reasons, I am open to reconsideration of *Red Lion* and *Pacifica* in the proper case.

SUPREME COURT OF THE UNITED STATES

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

[April 28, 2009]

JUSTICE KENNEDY, concurring in part and concurring in the judgment.

I join Parts I, II, III–A through III–D, and IV of the opinion of the Court and agree that the judgment must be reversed. This separate writing is to underscore certain background principles for the conclusion that an agency's decision to change course may be arbitrary and capricious if the agency sets a new course that reverses an earlier determination but does not provide a reasoned explanation for doing so. In those circumstances I agree with the dissenting opinion of JUSTICE BREYER that the agency must explain why "it now reject[s] the considerations that led it to adopt that initial policy." *Post*, at 5.

The question whether a change in policy requires an agency to provide a more-reasoned explanation than when the original policy was first announced is not susceptible, in my view, to an answer that applies in all cases. There may be instances when it becomes apparent to an agency that the reasons for a longstanding policy have been altered by discoveries in science, advances in technology, or by any of the other forces at work in a dynamic society. If an agency seeks to respond to new circumstances by modifying its earlier policy, the agency may have a substantial body of data and experience that can shape and inform the

new rule. In other cases the altered circumstances may be so new that the agency must make predictive judgments that are as difficult now as when the agency's earlier policy was first announced. Reliance interests in the prior policy may also have weight in the analysis.

The question in each case is whether the agency's reasons for the change, when viewed in light of the data available to it, and when informed by the experience and expertise of the agency, suffice to demonstrate that the new policy rests upon principles that are rational, neutral, and in accord with the agency's proper understanding of its authority. That showing may be required if the agency is to demonstrate that its action is not "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." 5 U. S. C. §706(2)(A). And, of course, the agency action must not be "in excess of statutory jurisdiction, authority, or limitations, or short of statutory right." §706(2)(C).

These requirements stem from the administrative agency's unique constitutional position. The dynamics of the three branches of Government are well understood as a general matter. But the role and position of the agency, and the exact locus of its powers, present questions that are delicate, subtle, and complex. The Federal Government could not perform its duties in a responsible and effective way without administrative agencies. Yet the amorphous character of the administrative agency in the constitutional system escapes simple explanation.

If agencies were permitted unbridled discretion, their actions might violate important constitutional principles of separation of powers and checks and balances. To that end the Constitution requires that Congress' delegation of lawmaking power to an agency must be "specific and detailed." *Mistretta* v. *United States*, 488 U. S. 361, 374 (1989). Congress must "clearly delineat[e] the general policy" an agency is to achieve and must specify the

"boundaries of [the] delegated authority." *Id.*, at 372–373. Congress must "'lay down by legislative act an intelligible principle,'" and the agency must follow it. *Id.*, at 372 (quoting *J. W. Hampton, Jr., & Co.* v. *United States*, 276 U. S. 394, 409 (1928)).

Congress passed the Administrative Procedure Act (APA) to ensure that agencies follow constraints even as they exercise their powers. One of these constraints is the duty of agencies to find and formulate policies that can be justified by neutral principles and a reasoned explanation. To achieve that end, Congress confined agencies' discretion and subjected their decisions to judicial review. See R. Stewart & C. Sunstein, Public Programs and Private Rights, 95 Harv. L. Rev. 1193, 1248 (1982) (the APA was a "working compromise, in which broad delegations of discretion were tolerated as long as they were checked by extensive procedural safeguards"). If an agency takes action not based on neutral and rational principles, the APA grants federal courts power to set aside the agency's action as "arbitrary" or "capricious." 5 U. S. C. §706(2)(A); *Citizens to Preserve Overton Park, Inc.* v. *Volpe*, 401 U. S. 402, 416 (1971). For these reasons, agencies under the APA are subject to a "searching and careful" review by the courts. *Ibid.*

Where there is a policy change the record may be much more developed because the agency based its prior policy on factual findings. In that instance, an agency's decision to change course may be arbitrary and capricious if the agency ignores or countermands its earlier factual findings without reasoned explanation for doing so. An agency cannot simply disregard contrary or inconvenient factual determinations that it made in the past, any more than it can ignore inconvenient facts when it writes on a blank slate.

This is the principle followed in the Court's opinion in *Motor Vehicle Mfrs. Assn. of United States, Inc.* v. *State*

Farm Mut. Automobile Ins. Co., 463 U. S. 29 (1983). There, Congress directed the agency to issue regulations that would "'meet the need for motor vehicle safety.'" *Id.*, at 33. The agency promulgated a regulation requiring cars to have passive-restraint systems—either airbags or automatic seatbelts. *Id.*, at 37. The agency based this regulation on its factual finding that these systems save lives. *Id.*, at 35.

Following a change in Presidential administration, however, the agency reversed course and rescinded the regulation. In doing so, the agency did not address its prior finding that airbags save lives. *Id.*, at 47–48. Indeed, "[n]ot one sentence" of the agency's "rulemaking statement" in support of rescinding the regulation discussed the benefits of airbags. *Id.*, at 48. This Court found the agency's rescission arbitrary and capricious because the agency did not address its prior factual findings. See *id.*, at 49–51.

The present case does not raise the concerns addressed in *State Farm*. Rather than base its prior policy on its knowledge of the broadcast industry and its audience, the FCC instead based its policy on what it considered to be our holding in *FCC* v. *Pacifica Foundation,* 438 U. S. 726 (1978). See *In re Application of WGBH Educ. Foundation,* 69 F. C. C. 2d 1250, 1254, ¶10 (1978) ("We intend strictly to observe the narrowness of the *Pacifica* holding"). The FCC did not base its prior policy on factual findings.

The FCC's Remand Order explains that the agency has changed its reading of *Pacifica*. The reasons the agency announces for this change are not so precise, detailed, or elaborate as to be a model for agency explanation. But, as the opinion for the Court well explains, the FCC's reasons for its action were the sort of reasons an agency may consider and act upon. The Court's careful and complete analysis—both with respect to the procedural history of the FCC's indecency policies, and the reasons the agency

has given to support them—is quite sufficient to sustain the FCC's change of course against respondents' claim that the agency acted in an arbitrary or capricious fashion.

The holding of the Court of Appeals turned on its conclusion that the agency's explanation for its change of policy was insufficient, and that is the only question presented here. I agree with the Court that as this case comes to us from the Court of Appeals we must reserve judgment on the question whether the agency's action is consistent with the guarantees of the Constitution.

SUPREME COURT OF THE UNITED STATES

No. 07–582

FEDERAL COMMUNICATIONS COMMISSION, ET AL., PETITIONERS *v.* FOX TELEVISION STATIONS, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

[April 28, 2009]

JUSTICE STEVENS, dissenting.

While I join JUSTICE BREYER's cogent dissent, I think it important to emphasize two flaws in the Court's reasoning. Apparently assuming that the Federal Communications Commission's (FCC or Commission) rulemaking authority is a species of executive power, the Court espouses the novel proposition that the Commission need not explain its decision to discard a longstanding rule in favor of a dramatically different approach to regulation. See *ante*, at 10–11. Moreover, the Court incorrectly assumes that our decision in *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978), decided that the word "indecent," as used in 18 U. S. C. §1464,[1] permits the FCC to punish the broadcast of *any* expletive that has a sexual or excretory origin. *Pacifica* was not so sweeping, and the Commission's changed view of its statutory mandate certainly would have been rejected if presented to the Court at the time.

I

"The structure of our Government as conceived by the

[1] Section 1464 provides: "Whoever utters any obscene, indecent, or profane language by means of radio communication shall be fined under this title or imprisoned not more than two years, or both."

Framers of our Constitution disperses the federal power among the three branches—the Legislative, the Executive, and the Judicial—placing both substantive and procedural limitations on each." *Metropolitan Washington Airports Authority* v. *Citizens for Abatement of Aircraft Noise, Inc.*, 501 U. S. 252, 272 (1991). The distinction among the branches is not always sharp, see *Bowsher* v. *Synar*, 478 U. S. 714, 749 (1986) (STEVENS, J., concurring in judgment) (citing cases), a consequence of the fact that the "great ordinances of the Constitution do not establish and divide fields of black and white," *Springer* v. *Philippine Islands*, 277 U. S. 189, 209 (1928) (Holmes, J., dissenting). Strict lines of authority are particularly elusive when Congress and the President both exert a measure of control over an agency. As a landmark decision involving the Federal Trade Commission (FTC) made clear, however, when Congress grants rulemaking and adjudicative authority to an expert agency composed of commissioners selected through a bipartisan procedure and appointed for fixed terms, it substantially insulates the agency from executive control. See *Humphrey's Executor* v. *United States*, 295 U. S. 602, 623–628 (1935).

With the view that broadcast regulation "should be as free from political influence or arbitrary control as possible," S. Rep. No. 772, 69th Cong., 1st Sess., 2 (1926), Congress established the FCC with the same measure of independence from the Executive that it had provided the FTC. Just as the FCC's commissioners do not serve at the will of the President, see 47 U. S. C. §154(c) (2000 ed.), its regulations are not subject to change at the President's will. And when the Commission fashions rules that govern the airwaves, it exercises legislative power delegated to it by Congress. See *Whitman* v. *American Trucking Assns., Inc.*, 531 U. S. 457, 489–490 (2001) (STEVENS, J., concurring in part and concurring in judgment); *Bowsher*, 478 U. S., at 752 (opinion of STEVENS, J.). Consequently,

the FCC "cannot in any proper sense be characterized as an arm or an eye of the executive" and is better viewed as an agent of Congress established "to carry into effect legislative policies embodied in the statute in accordance with the legislative standard therein prescribed, and to perform other specified duties as a legislative . . . aid." *Humphrey's Executor*, 295 U. S., at 628.[2]

The FCC, like all agencies, may revise its regulations from time to time, just as Congress amends its statutes as circumstances warrant. But the FCC is constrained by its congressional mandate. There should be a strong presumption that the FCC's initial views, reflecting the informed judgment of independent commissioners with expertise in the regulated area, also reflect the views of the Congress that delegated the Commission authority to flesh out details not fully defined in the enacting statute. The rules adopted after *Pacifica*, 438 U. S. 726, have been in effect for decades and have not proved unworkable in the intervening years. As JUSTICE BREYER's opinion explains, broadcasters have a substantial interest in regulatory stability; the threat of crippling financial penalties looms large over these entities. See *post*, at 10–14. The FCC's shifting and impermissibly vague indecency

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[2] JUSTICE SCALIA erroneously concludes that treating the FCC's rulemaking authority as an exercise of legislative power would somehow be unconstitutional. See *ante*, at 21 (citing *Bowsher* v. *Synar*, 478 U. S. 714, 726 (1986)). But that is the nature of rulemaking: Rules promulgated by agencies (independent or not) carry the force of law precisely because they are exercises of such legislative authority. This may offend JUSTICE SCALIA's theory of the "unitary Executive," *ante*, at 22, but it does not offend the Constitution. Indeed, "the Framers vested 'All legislative Powers' in the Congress, Art. I, §1, just as in Article II they vested the 'executive Power' in the President, Art. II, §1. Those provisions do not purport to limit the authority of either recipient of power to delegate authority to others." *Whitman* v. *American Trucking Assns., Inc.*, 531 U. S. 457, 489 (2001) (STEVENS, J., concurring in part and concurring in judgment).

policy only imperils these broadcasters and muddles the regulatory landscape. It therefore makes eminent sense to require the Commission to justify why its prior policy is no longer sound before allowing it to change course.[3] The FCC's congressional charter, 47 U. S. C. §151 *et seq.*, the Administrative Procedure Act, 5 U. S. C. §706(2)(A) (2006 ed.) (instructing courts to "hold unlawful and set aside . . . arbitrary [or] capricious" agency action), and the rule of law all favor stability over administrative whim.

II

The Court commits a second critical error by assuming that *Pacifica* endorsed a construction of the term "indecent," as used in 18 U. S. C. §1464, that would include any expletive that has a sexual or excretory origin. Neither the opinion of the Court, nor Justice Powell's concurring opinion, adopted such a far-reaching interpretation. Our holding was narrow in two critical respects. First, we concluded, over the dissent of four Justices, that the statutory term "indecent" was not limited to material that had prurient appeal and instead included material that was in "nonconformance with accepted standards of morality." *Pacifica,* 438 U. S., at 740. Second, we upheld the FCC's adjudication that a 12-minute, expletive-filled monologue

[3]It appears that JUSTICE SCALIA has come to the view that isolated statements by members of a congressional oversight subcommittee are sufficient evidence of Congress' intent. See *ante*, at 20, n. 4. Delving into the details of how various lawmakers "grilled" the full slate of FCC Commissioners, JUSTICE SCALIA concludes, quite remarkably, that this encounter "made clear [Congress'] wishes for stricter enforcement" and "would seem an adequate explanation of [the FCC's] change of position." *Ante*, at 21. Putting to the side the question whether congressional outrage is the kind of evidence sufficient to explain the Commission's decision to adopt a thinly-reasoned and unconstitutional policy, JUSTICE SCALIA's treatment of these proceedings as evidencing the intent of Congress would make even the most ardent student of legislative history blush.

by satiric humorist George Carlin was indecent "as broadcast." *Id.*, at 735. We did not decide whether an *isolated* expletive could qualify as indecent. *Id.*, at 750; *id.*, at 760–761 (Powell, J., concurring in part and concurring in judgment). And we certainly did not hold that any word with a sexual or scatological origin, however used, was indecent.

The narrow treatment of the term "indecent" in *Pacifica* defined the outer boundaries of the enforcement policies adopted by the FCC in the ensuing years. The Commission originally explained that "under the legal standards set forth in *Pacifica*, deliberate and repetitive use [of expletives] in a patently offensive manner is a requisite to a finding of indecency." *In re Pacifica Foundation*, 2 FCC Rcd. 2698, 2699, ¶13 (1987). While the "repetitive use" issue has received the most attention in this case, it should not be forgotten that *Pacifica* permitted the Commission to regulate only those words that describe sex or excrement. See 438 U. S., at 743 (plurality opinion) ("[T]he Commission's definition of indecency will deter only the broadcasting of patently offensive *references* to excretory and sexual organs and activities" (emphasis added)). The FCC minimizes the strength of this limitation by now claiming that any use of the words at issue in this case, in any context and in any form, *necessarily* describes sex or excrement. See *In re Complaints Regarding Various Television Broadcasts Between February 2, 2002 and March 8, 2005*, 21 FCC Rcd. 13299, 13308, ¶23 (2006) *(Remand Order)* ("[A]ny strict dichotomy between expletives and descriptions or depictions of sexual or excretory functions is artificial and does not make sense in light of the fact that an expletive's power to offend derives from its sexual or excretory meaning" (internal quotation marks omitted)). The customs of speech refute this claim: There is a critical distinction between the use of an expletive to describe a sexual or excretory function and the use

of such a word for an entirely different purpose, such as to express an emotion. One rests at the core of indecency; the other stands miles apart. As any golfer who has watched his partner shank a short approach knows, it would be absurd to accept the suggestion that the resultant four-letter word uttered on the golf course describes sex or excrement and is therefore indecent. But that is the absurdity the FCC has embraced in its new approach to indecency.[4] See *In re Complaints Against Various Broadcast Licensees Regarding Their Airing of the "Golden Globe Awards" Program,* 19 FCC Rcd. 4975, 4978–4979, ¶¶8–9 (2004) (declaring that even the use of an expletive to emphasize happiness "invariably invokes a coarse sexual image").

Even if the words that concern the Court in this case *sometimes* retain their sexual or excretory meaning, there are surely countless instances in which they are used in a manner unrelated to their origin. These words may not be polite, but that does not mean they are necessarily "indecent" under §1464. By improperly equating the two, the Commission has adopted an interpretation of "indecency" that bears no resemblance to what *Pacifica* contemplated.[5] Most distressingly, the Commission appears to be entirely unaware of this fact, see *Remand Order,* 21 FCC Rcd., at 13308 (erroneously referencing *Pacifica* in support of its new policy), and today's majority seems untroubled by this significant oversight, see *ante,* at 4–5, 13–14. Because the

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[4] It is ironic, to say the least, that while the FCC patrols the airwaves for words that have a tenuous relationship with sex or excrement, commercials broadcast during prime-time hours frequently ask viewers whether they too are battling erectile dysfunction or are having trouble going to the bathroom.

[5] While JUSTICE THOMAS and I disagree about the continued wisdom of *Pacifica,* see *ante,* p. 1 (concurring opinion), the changes in technology and the availability of broadcast spectrum he identifies certainly counsel a restrained approach to indecency regulation, not the wildly expansive path the FCC has chosen.

FCC has failed to demonstrate an awareness that it has ventured far beyond *Pacifica*'s reading of §1464, its policy choice must be declared arbitrary and set aside as unlawful. See *Citizens to Preserve Overton Park, Inc.* v. *Volpe*, 401 U. S. 402, 416 (1971).

III

For these reasons and those stated in JUSTICE BREYER's dissenting opinion, I would affirm the judgment of the Court of Appeals.

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[April 28, 2009]

JUSTICE GINSBURG, dissenting.

The mainspring of this case is a Government restriction on spoken words. This appeal, I recognize, arises under the Administrative Procedure Act.* JUSTICE BREYER's dissenting opinion, which I join, cogently describes the infirmities of the Federal Communications Commission's (FCC or Commission) policy switch under that Act. The Commission's bold stride beyond the bounds of *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978), I agree, exemplified "arbitrary" and "capricious" decisionmaking. I write separately only to note that there is no way to hide the long shadow the First Amendment casts over what the Commission has done. Today's decision does nothing to diminish that shadow.

More than 30 years ago, a sharply divided Court allowed the FCC to sanction a midafternoon radio broadcast of comedian George Carlin's 12-minute "Filthy Words" mono-

*The Second Circuit, presented with both constitutional and statutory challenges, vacated the remand order on APA grounds. The court therefore "refrain[ed] from deciding" the "constitutional questions." 489 F. 3d 444, 462 (2007) (quoting *Lyng* v. *Northwest Indian Cemetery Protective Assn.*, 485 U. S. 439, 445 (1988)). The majority, however, stated and explained why it was "skeptical" that the Commission's policy could "pass constitutional muster." 489 F. 3d, at 462.

logue. *Ibid.* Carlin satirized the "original" seven dirty words and repeated them relentlessly in a variety of colloquialisms. The monologue was aired as part of a program on contemporary attitudes toward the use of language. *In re Citizen's Complaint Against Pacifica Foundation Station WBAI (FM)*, 56 F. C. C. 2d 94, 95 (1975). In rejecting the First Amendment challenge, the Court "emphasize[d] the narrowness of [its] holding." *Pacifica,* 438 U. S., at 750. See also *ante*, at 1 (STEVENS, J., dissenting). In this regard, the majority stressed that the Carlin monologue deliberately repeated the dirty words "over and over again." 438 U. S., at 729, 751–755 (Appendix). Justice Powell, concurring, described Carlin's speech as "verbal shock treatment." *Id.*, at 757 (concurring in part and concurring in judgment).

In contrast, the unscripted fleeting expletives at issue here are neither deliberate nor relentlessly repetitive. Nor does the Commission's policy home in on expressions used to describe sexual or excretory activities or organs. Spontaneous utterances used simply to convey an emotion or intensify a statement fall within the order's compass. Cf. *Cohen* v. *California*, 403 U. S. 15, 26 (1971) ("[W]ords are often chosen as much for their emotive as their cognitive force. We cannot sanction the view that the Constitution, while solicitous of the cognitive content of individual speech, has little or no regard for that emotive function which, practically speaking, may often be the more important element of the overall message sought to be communicated."); *Denver Area Ed. Telecommunications Consortium, Inc.* v. *FCC*, 518 U. S. 727, 805 (1996) (KENNEDY, J., concurring in part, concurring in judgment in part, and dissenting in part) (a word categorized as indecent "often is inseparable from the ideas and viewpoints conveyed, or separable only with loss of truth or expressive power").

The *Pacifica* decision, however it might fare on reassessment, see *ante*, at 6 (THOMAS, J., concurring), was

tightly cabined, and for good reason. In dissent, Justice Brennan observed that the Government should take care before enjoining the broadcast of words or expressions spoken by many "in our land of cultural pluralism." 438 U. S., at 775. That comment, fitting in the 1970's, is even more potent today. If the reserved constitutional question reaches this Court, see *ante*, at 26 (majority opinion), we should be mindful that words unpalatable to some may be "commonplace" for others, "the stuff of everyday conversations." 438 U. S., at 776 (Brennan, J., dissenting).

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[April 28, 2009]

JUSTICE BREYER, with whom JUSTICE STEVENS, JUSTICE SOUTER, and JUSTICE GINSBURG join, dissenting.

In my view, the Federal Communications Commission failed adequately to explain *why* it *changed* its indecency policy from a policy permitting a single "fleeting use" of an expletive, to a policy that made no such exception. Its explanation fails to discuss two critical factors, at least one of which directly underlay its original policy decision. Its explanation instead discussed several factors well known to it the first time around, which by themselves provide no significant justification for a *change* of policy. Consequently, the FCC decision is "arbitrary, capricious, an abuse of discretion." 5 U. S. C. §706(2)(A); *Motor Vehicle Mfrs. Assn. of United States, Inc.* v. *State Farm Mut. Automobile Ins. Co.*, 463 U. S. 29, 41–43 (1983); *Citizens to Preserve Overton Park, Inc.* v. *Volpe,* 401 U. S. 402, 420–421 (1971). And I would affirm the Second Circuit's similar determination.

I

I begin with applicable law. That law grants those in charge of independent administrative agencies broad authority to determine relevant policy. But it does not permit them to make policy choices for purely political

reasons nor to rest them primarily upon unexplained policy preferences. Federal Communications Commissioners have fixed terms of office; they are not directly responsible to the voters; and they enjoy an independence expressly designed to insulate them, to a degree, from "'the exercise of political oversight.'" *Freytag* v. *Commissioner*, 501 U. S. 868, 916 (1991) (SCALIA, J., concurring in part and concurring in judgment); see also *Morrison* v. *Olson*, 487 U. S. 654, 691, n. 30 (1988). That insulation helps to secure important governmental objectives, such as the constitutionally related objective of maintaining broadcast regulation that does not bend too readily before the political winds. But that agency's comparative freedom from ballot-box control makes it all the more important that courts review its decisionmaking to assure compliance with applicable provisions of the law—including law requiring that major policy decisions be based upon articulable reasons.

The statutory provision applicable here is the Administrative Procedure Act's (APA) prohibition of agency action that is "arbitrary, capricious, [or] an abuse of discretion," 5 U. S. C. §706(2)(A). This legal requirement helps assure agency decisionmaking based upon more than the personal preferences of the decisionmakers. Courts have applied the provision sparingly, granting agencies broad policymaking leeway. But they have also made clear that agency discretion is not "'unbounded.'" *Burlington Truck Lines, Inc.* v. *United States*, 371 U. S. 156, 167–168 (1962). In so holding, American courts have followed a venerable legal tradition, stretching back at least to the days of Sir Edward Coke and the draining of the English fens. See *Rooke's Case*, 77 Eng. Rep. 209, 210, 5 Coke Rep. 99b, 100a (C. P. 1598) (Coke, J.) (members of sewer commission with authority to act according "to their discretio[n]" are nonetheless "limited and bound with the rule of reason and law . . . and [cannot act] according to their wills and

private affections" (quoted in Jaffe, Judicial Review: Constitutional and Jurisdictional Fact, 70 Harv. L. Rev. 953, 954 (1957))).

The law has also recognized that it is not so much a particular set of substantive commands but rather it is a *process*, a process of learning through reasoned argument, that is the antithesis of the "arbitrary." This means agencies must follow a "logical and rational" decisionmaking "process." *Allentown Mack Sales & Service, Inc.* v. *NLRB*, 522 U. S. 359, 374 (1998). An agency's policy decisions must reflect the reasoned exercise of expert judgment. See *Burlington Truck Lines, supra*, at 167 (decision must reflect basis on which agency "exercised its expert discretion"); see also *Humphrey's Executor* v. *United States*, 295 U. S. 602, 624 (1935) (independent agencies "exercise . . . trained judgment . . . 'informed by experience'"). And, as this Court has specified, in determining whether an agency's policy choice was "arbitrary," a reviewing court "must consider whether the decision was based on a consideration of the relevant factors and whether there has been a clear error of judgment." *Overton Park, supra*, at 416.

Moreover, an agency must act consistently. The agency must follow its own rules. *Arizona Grocery Co.* v. *Atchison, T. & S. F. R. Co.*, 284 U. S. 370, 389–390 (1932). And when an agency seeks to change those rules, it must focus on the fact of change and explain the basis for that change. See, *e.g.*, *National Cable & Telecommunications Assn.* v. *Brand X Internet Services*, 545 U. S. 967, 981 (2005) ("*Unexplained* inconsistency is" a "reason for holding an interpretation to be an arbitrary and capricious change from agency practice" (emphasis added)).

To explain a change requires more than setting forth reasons why the new policy is a good one. It also requires the agency to answer the question, "Why did you change?" And a rational answer to this question typically requires a

more complete explanation than would prove satisfactory were change itself not at issue. An (imaginary) administrator explaining why he chose a policy that requires driving on the right-side, rather than the left-side, of the road might say, "Well, one side seemed as good as the other, so I flipped a coin." But even assuming the rationality of that explanation for an *initial* choice, that explanation is not at all rational if offered to explain why the administrator *changed* driving practice, from right-side to left-side, 25 years later.

In *State Farm*, a unanimous Court applied these commonsense requirements to an agency decision that rescinded an earlier agency policy. The Court wrote that an agency must provide an explanation for the agency's *"revocation"* of a prior action that is more thorough than the explanation necessary when it does not act in the first instance. The Court defined "revocation," not simply as *rescinding* an earlier policy, cf. *ante*, at 10–11, but as "a *reversal of the agency's former views* as to the proper course." *State Farm*, 463 U. S., at 41 (emphasis added). See also *Verizon Communications Inc.* v. *FCC*, 535 U. S. 467, 502, n. 20 (2002) (portion of Court's opinion joined by SCALIA, KENNEDY, and THOMAS, JJ.) (noting *State Farm* "may be read as prescribing more searching judicial review" when "an agency [is] 'changing its course' as to the interpretation of a statute"); *Thomas Jefferson Univ.* v. *Shalala*, 512 U. S. 504, 524, n. 3 (1994) (THOMAS, J., dissenting) (similar).

At the same time, the Court described the need for explanation in terms that apply, not simply to pure *rescissions* of earlier rules, but rather to changes of policy as it more broadly defined them. But see *ante*, at 10–11. It said that the law required an explanation for such a *change* because the earlier policy, representing a "'settled course of behavior[,] embodies the agency's informed judgment that, by pursuing that course, it will carry out

the policies . . . best if the settled rule is adhered to.'" *State Farm, supra,* at 41–42. Thus, the agency must explain *why* it has come to the conclusion that it should now change direction. Why does it now reject the considerations that led it to adopt that initial policy? What has changed in the world that offers justification for the change? What other good reasons are there for departing from the earlier policy?

Contrary to the majority's characterization of this dissent, it would not (and *State Farm* does not) require a "*heightened standard*" of review. *Ante,* at 10 (emphasis added). Rather, the law requires application of the *same standard* of review to different circumstances, namely circumstances characterized by the fact that *change* is at issue. It requires the agency to focus upon the fact of change where change is relevant, just as it must focus upon any other relevant circumstance. It requires the agency here to focus upon the reasons that led the agency to adopt the initial policy, and to explain why it now comes to a new judgment.

I recognize that *sometimes* the ultimate explanation for a change may have to be, "We now weigh the relevant considerations differently." But at other times, an agency can and should say more. Where, for example, the agency rested its previous policy on particular factual findings, see *ante,* at 3–5 (KENNEDY, J., concurring in part and concurring in judgment); or where an agency rested its prior policy on its view of the governing law, see *infra,* at 7–11; or where an agency rested its previous policy on, say, a special need to coordinate with another agency, one would normally expect the agency to focus upon those earlier views of fact, of law, or of policy and explain why they are no longer controlling. Regardless, to say that the agency here must answer the question "why change" is not to require the agency to provide a justification that is "*better* than the reasons for the old [policy]." *Ante,* at 11.

It is only to recognize the obvious fact that *change* is sometimes (not always) a relevant background feature that sometimes (not always) requires focus (upon prior justifications) and explanation lest the adoption of the new policy (in that circumstance) be "arbitrary, capricious, an abuse of discretion."

That is certainly how courts of appeals, the courts that review agency decisions, have always treated the matter in practice. See, *e.g.*, *Pennsylvania Federation of Sportsmen's Clubs, Inc.* v. *Kempthorne*, 497 F. 3d 337, 351 (CA3 2007); *Yale-New Haven Hosp.* v. *Leavitt*, 470 F. 3d 71, 79 (CA2 2006); *Citizens Awareness Network, Inc.* v. *United States*, 391 F. 3d 338, 352 (CA1 2004). But see *NAACP* v. *FCC*, 682 F. 2d 993, 998 (CADC 1982) (using word "heightened"). The majority's holding could in this respect significantly change judicial review in practice, and not in a healthy direction. But see, *ante*, at 1–5 (KENNEDY, J., concurring in part and concurring in judgment). After all, if it is *always* legally sufficient for the agency to reply to the question "why change?" with the answer "we prefer the new policy" (even when the agency *has not considered* the major factors that led it to adopt its old policy), then why bother asking the agency to focus on the fact of change? More to the point, *why* would the law exempt this and no other aspect of an agency decision from "arbitrary, capricious" review? Where does, and why would, the APA grant agencies the freedom to change major policies on the basis of nothing more than political considerations or even personal whim?

Avoiding the application of any *heightened* standard of review, the Court in *State Farm* recognized that the APA's "nonarbitrary" requirement affords agencies generous leeway when they set policy. 463 U. S., at 42. But it also recognized that this leeway is not absolute. The Court described its boundaries by then listing considerations that help determine whether an explanation is adequate.

Mirroring and elaborating upon its statement in *Overton Park,* 401 U. S. 402, the Court said that a reviewing court should take into account whether the agency had "relied on factors which Congress has not intended it to consider, entirely failed to consider an important aspect of the problem, offered an explanation for its decision that runs counter to the evidence before the agency, or is so implausible that it could not be ascribed to a difference in view or the product of agency expertise." *State Farm, supra,* at 43; see also *Overton Park, supra,* at 416.

II

We here must apply the general standards set forth in *State Farm* and *Overton Park* to an agency decision that changes a 25-year-old "fleeting expletive" policy from (1) the old policy that would normally permit broadcasters to transmit a single, fleeting use of an expletive to (2) a new policy that would threaten broadcasters with large fines for transmitting even a single use (including its use by a member of the public) of such an expletive, alone with nothing more. The question is whether that decision satisfies the minimal standards necessary to assure a reviewing court that such a change of policy is not "arbitrary, capricious, [or] an abuse of discretion," 5 U. S. C. §706(2)(A), particularly as set forth in, *e.g.*, *State Farm* and *Overton Park, supra,* at 2–7. The decision, in my view, does not satisfy those standards.

Consider the requirement that an agency at least minimally "consider . . . important aspect[s] of the problem." *State Farm, supra,* at 43. The FCC failed to satisfy this requirement, for it failed to consider two critically important aspects of the problem that underlay its initial policy judgment (one of which directly, the other of which indirectly). First, the FCC said next to nothing about the relation between the change it made in its prior "fleeting expletive" policy and the First-Amendment-related need to

avoid "censorship," a matter as closely related to broadcasting regulation as is health to that of the environment. The reason that discussion of the matter is particularly important here is that the FCC had *explicitly* rested its prior policy in large part upon the need to avoid treading too close to the constitutional line.

Thirty years ago, the Court considered the location of that constitutional line. In *FCC* v. *Pacifica Foundation*, 438 U. S. 726 (1978), the Court reviewed an FCC decision forbidding the broadcast of a monologue that deliberately and repeatedly uttered the expletives here at issue more than 100 times in one hour at a time of day when children were likely to hear the broadcast. *Id.*, at 739. The Court held that the FCC's prohibition did not violate the First Amendment. But the Court divided 5 to 4. And two Members of the majority, Justices Powell and Blackmun, explicitly noted that the Court "does not speak to cases involving *the isolated use* of a potentially offensive word . . . as distinguished from the verbal shock treatment administered by respondent here." *Id.*, at 760–761 (Powell, J., concurring in part and concurring in judgment) (emphasis added). This statement by two Members of the majority suggested that they could reach a different result, finding an FCC prohibition unconstitutional, were that prohibition aimed at the fleeting or single use of an expletive.

The FCC subsequently made clear that it thought that Justice Powell's concurrence set forth a constitutional line that its indecency policy should embody. In 1978, the Commission wrote that the First Amendment "severely limit[s]" the Commission's role in regulating indecency. It added that the Court, in *Pacifica*, had "relied . . . on the repetitive occurrence of the 'indecent' words in question." And it said that, in setting policy, it "intend[ed] strictly to observe the narrowness of the *Pacifica* holding." *In re Application of WGBH Educ. Foundation*, 69 F. C. C. 2d

1250, 1254, ¶10.

In 1983, the Commission again wrote that it understood the Court's decision in *Pacifica* to rest on the "repetitive occurrence of the 'indecent' words in question." And, again, the Commission explained that its regulation of fleeting or isolated offensive words would reflect Justice Powell's understanding of the First Amendment's scope. *In re Application of Pacifica Foundation*, 95 F. C. C. 2d 750, 760, ¶¶17–18. In 1987, the Commission once more explained that its "fleeting expletives" policy reflected the Court's decision in *Pacifica*. It said that, under its policy, "speech that is indecent *must* involve more than an isolated use of an offensive word," adding that "we believe that under the legal standards set forth in *Pacifica*, deliberate and repetitive use in a patently offensive manner is a requisite to a finding of indecency." *In re Pacifica Foundation*, 2 FCC Rcd. 2698, 2699, ¶13 (emphasis added). In another order that same year, the Commission stated that "the First Amendment dicate[s] a careful and restrained approach with regard to review of matters involving broadcast programming"; it then explained, citing *Pacifica*, that "[s]peech that is indecent *must* involve more than the isolated use of an offensive word." *In re Infinity Broadcasting*, 2 FCC Rcd. 2705, 2705, ¶¶6–7 (1987) (emphasis added). And in 2001, in giving the industry guidance, the FCC once again said in respect to its regulation of indecent speech that it "must both identify a compelling interest for any regulation . . . and choose the least restrictive means to further that interest." *In re Industry Guidance On Commission's Case Law Interpreting 18 U. S. C. §1464 and Enforcement Policies Regarding Broadcast Indecency*, 16 FCC Rcd. 7999, 8000–8001, ¶3–5.

The FCC thus repeatedly made clear that it based its "fleeting expletive" policy upon the need to avoid treading too close to the constitutional line as set forth in Justice Powell's *Pacifica* concurrence. What then did it say, when

it changed its policy, about *why* it abandoned this Constitution-based reasoning? The FCC devoted "four full pages of small-type, single-spaced text," *ante*, at 23, responding to industry arguments that, *e.g.*, changes in the nature of the broadcast industry made *all* indecency regulation, *i.e.*, 18 U. S. C. §1464, unconstitutional. In doing so it repeatedly *reaffirmed* its view that *Pacifica* remains good law. *In re Complaints Regarding Various Television Broadcasts Between February 2, 2002, and March, 8, 2008,* 21 FCC Rcd. 13299, 13317–13321, ¶¶42–52 (2006) *(Remand Order).* All the more surprising then that, in respect to *why* it abandoned its prior view about the critical relation between its prior fleeting expletive policy and Justice Powell's *Pacifica* concurrence, it says no more than the following:

"[O]ur decision is not inconsistent with the Supreme Court ruling in *Pacifica.* The Court explicitly left open the issue of whether an occasional expletive could be considered indecent." *In re Complaints Against Various Broadcast Licensees Regarding Their Airing of the "Golden Globe Awards" Program,* 19 FCC Rcd. 4975, 4982, ¶16 (2004) *(Golden Globe Order).* And, (repeating what it already had said), "*[Pacifica]* specifically reserved the question of 'an occasional expletive' and noted that it addressed only the 'particular broadcast' at issue in that case." *Remand Order, supra,* at 13308–13309, ¶24.

These two sentences are not a summary of the FCC's discussion about why it abandoned its prior understanding of *Pacifica.* They *are* the discussion. These 28 words (repeated in two opinions) do not acknowledge that an entirely different understanding of *Pacifica* underlay the FCC's earlier policy; they do not explain why the agency changed its mind about the line that *Pacifica* draws or its policy's relation to that line; and they tell us nothing at all about what happened to the FCC's earlier determination to search for "compelling interests" and "less restrictive

alternatives." They do not explain the transformation of what the FCC had long thought an insurmountable obstacle into an open door. The result is not simply *Hamlet* without the prince, but *Hamlet* with a prince who, in midplay and without explanation, just disappears.

I have found one other related reference to *Pacifica*, but that reference occurs in an opinion written by a *dissenting* Commissioner. That dissenter said that the FCC had "'fail[ed] to address the many serious [constitutional] concerns raised'" by the new policy, while adding that the new policy was "not the restrained enforcement policy encouraged by the Supreme Court in *Pacifica*." *Remand Order, supra,* at 13331, 13334. Neither that Commissioner in his dissent, nor I in this dissent, claim that agencies must always take account of possible constitutional issues when they formulate policy. Cf. *ante,* at 12. But the FCC works in the shadow of the First Amendment and its view of the application of that Amendment to "fleeting expletives" directly informed its initial policy choice. Under these circumstances, the FCC's failure to address this "aspect" of the problem calls for a remand to the agency. *Overton Park,* 401 U. S., at 420–421.

Second, the FCC failed to consider the potential impact of its new policy upon local broadcasting coverage. This "aspect of the problem" is particularly important because the FCC explicitly took account of potential broadcasting impact. *Golden Globe Order, supra,* at 4980, ¶11 ("The ease with which broadcasters today can block even fleeting words in a live broadcast is an element in our decision"). Indeed, in setting forth "bleeping" technology changes (presumably lowering bleeping costs) as justifying the policy change, it implicitly reasoned that lower costs, making it easier for broadcasters to install bleeping equipment, made it less likely that the new policy would lead broadcasters to reduce coverage, say by canceling coverage of public events. *Ibid.* ("[T]echnological advances

have made it possible . . . to prevent the broadcast of a single offending word or action without blocking or disproportionately disrupting the message of the speaker or performer").

What then did the FCC say about the likelihood that smaller independent broadcasters, including many public service broadcasters, still would not be able to afford "bleeping" technology and, as a consequence, would reduce local coverage, indeed cancel coverage, of many public events? It said nothing at all.

The FCC cannot claim that local coverage lacks special importance. To the contrary, "the concept of localism has been a cornerstone of broadcast regulation for decades." *In re Broadcast Localism*, 23 FCC Rcd. 1324, 1326, 1327, ¶¶3, 5 (2008). That policy seeks to provide "viewers and listeners . . . access to locally responsive programming including, but not limited to, local news and public affairs matter" and to ensure "diversity in what is seen and heard over the airwaves." That policy has long favored local broadcasting, both as a means to increase coverage of local events and, insofar as it increases the number of broadcast voices, as an end in itself. See, *e.g.*, *In re Reexamination of Comparative Standards for Noncommercial Educ. Applicants*, 15 FCC Rcd. 7386, 7399, ¶29 (2000) (adopting a system for selecting applicants for broadcast channels that "would foster our goal of broadcast diversity by enabling the local public to be served by differing . . . licensees"); *In re 2002 Biennial Regulatory Review*, 18 FCC Rcd. 13620, 13644, ¶¶77, 79 (2003) ("We remain firmly committed to the policy of promoting localism among broadcast outlets. . . . A . . . measure of localism is the quantity and quality of local news and public affairs programming").

Neither can the FCC now claim that the impact of its new policy on local broadcasting is insignificant and obviously so. Broadcasters tell us, as they told the FCC, the contrary. See Brief for Former FCC Commissioners as

Amici Curiae 17–19; App. 235–237; Joint Comments of Fox Television Stations, Inc. et al., *In re Remand of Section III.B of the Commission's March 15, 2006 Omnibus Order Resolving Numerous Broadcast Television Indecency Complaints* 14–15, http://www.fcc.gov/DA06–1739/joint-networks.pdf (all Internet materials as visited Apr. 7, 2009, and available in Clerk of Court's case file). They told the FCC, for example, that the costs of bleeping/delay systems, up to $100,000 for installation and annual operation, place that technology beyond the financial reach of many smaller independent local stations. See *id.*, at 14 ("The significant equipment and personnel costs associated with installing, maintaining, and operating delay equipment sufficient to cover all live news, sports, and entertainment programs could conceivably exceed the net profits of a small local station for an entire year"); *id.*, at App. XI. And they ask what the FCC thinks will happen when a small local station without bleeping equipment wants to cover, say a local city council meeting, a high school football game, a dance contest at community center, or a Fourth of July parade.

Relevant literature supports the broadcasters' financial claims. See, *e.g.*, Ho, Taking No Chances, Austin American-Statesman, June 18, 2006, p. J1; Dotinga, Dirty-Word Filters Prove Costly, Wired.com, July 9, 2004, http://www.wired.com/entertainment/music/news/2004/07/64127; Stations, Cable Networks Finding Indecency Rules Expensive, Public Broadcasting Report, Aug. 4, 2006. It also indicates that the networks with which some small stations are affiliated are not liable for the stations' local transmissions (unless the networks own them). Ho, *supra*, at J1; Public Stations Fear Indecency Fine Jump Means Premium Hikes, Public Broadcasting Report, July 7, 2006. The result is that smaller stations, fearing "fleeting expletive" fines of up to $325,000, may simply cut back on their coverage. See Romano, Reporting Live. Very Carefully,

Broadcasting & Cable, July 4, 2005, p. 8; see also *ibid.* ("Afraid to take chances" of getting fined under the FCC's new policy, "local broadcasters are responding by altering—or halting altogether—the one asset that makes local stations so valuable to their communities: live TV"); Daneman, WRUR Drops Its Live Radio Programs, Rochester Democrat and Chronicle, May 27, 2004, p. 1B (reporting that a local broadcast station ceased broadcasting all local live programming altogether in response to the Commission's policy change). And there are many such smaller stations. See, *e.g.*, Corporation for Public Broadcasting, Frequently Asked Questions, available at http://www.cpb.org/aboutpb/faq/stations.html (noting there are over 350 local public television stations and nearly 700 local public radio stations that receive support from the Corporation for Public Broadcasting).

As one local station manager told the FCC,

> "[t]o lessen the risk posed by the new legal framework . . . I have directed [the station's] news staff that [our station] may no longer provide live, direct-to-air coverage" of "live events where crowds are present . . . unless they affect matters of public safety or convenience. Thus, news coverage by [my station] of live events where crowds are present essentially will be limited to civil emergencies." App. 236–237 (declaration of Dennis Fisher).

What did the FCC say in response to this claim? What did it say about the likely impact of the new policy on the coverage that its new policy is most likely to affect, coverage of *local* live events—city council meetings, local sports events, community arts productions, and the like? It said nothing at all.

The plurality acknowledges that the Commission entirely failed to discuss this aspect of the regulatory problem. But it sees "no need" for discussion in light of its, *i.e.*,

the plurality's, own "doubt[s]" that "small-town broadcasters run a heightened risk of liability for indecent utterances" as a result of the change of policy. *Ante*, at 24–25. The plurality's "doubt[s]" rest upon its views (1) that vulgar expression is less prevalent (at least among broadcast guests) in smaller towns, *ante*, at 24; (2) that the greatest risk the new policy poses for "small-town broadcasters" arises when they broadcast local "news and public affairs," *ibid.*, and (3) that the *Remand Order* says "little about how the Commission would treat smaller broadcasters who cannot afford screening equipment," while also pointing out that the new policy "'does not . . . impose undue burdens on broadcasters'" and emphasizing that the case before it did not involve "'breaking news.'" *Ante*, at 24–25.

As to the first point, about the prevalence of vulgarity in small towns, I confess ignorance. But I do know that there are independent stations in many large and medium sized cities. See Television & Cable Factbook, Directory of Television Stations in Operation 2008. As to the second point, I too believe that coverage of local public events, if not news, lies at the heart of the problem.

I cannot agree with the plurality, however, about the critical third point, namely that the new policy obviously provides smaller independent broadcasters with adequate assurance that they will not be fined. The new policy removes the "fleeting expletive" exception, an exception that assured smaller independent stations that they would not be fined should someone swear at a public event. In its place, it puts a policy that places all broadcasters at risk when they broadcast fleeting expletives, including expletives uttered at public events. The *Remand Order* says that there "is *no outright news exemption from our indecency rules*." 21 FCC Rcd., at 13327, ¶71 (emphasis added). The best it can provide by way of assurance is to say that "it *may* be inequitable to hold a licensee responsi-

ble for airing offensive speech during live coverage of a public event *under some circumstances*." *Id.*, at 13311, ¶33 (emphasis added). It does list those circumstances as including the "possibility of human error in using delay equipment." *Id.*, at 13313, ¶35. But it says *nothing* about a station's *inability to afford* delay equipment (a matter that in individual cases could itself prove debatable). All the FCC had to do was to *consider* this matter and either grant an exemption or explain why it did not grant an exemption. But it did not. And the result is a rule that may well chill coverage—the kind of consequence that the law has considered important for decades, to which the broadcasters pointed in their arguments before the FCC, and which the FCC nowhere discusses. See, *e.g.*, *Dombrowski* v. *Pfister*, 380 U. S. 479, 494 (1965) ("So long as the statute remains available to the State the threat of prosecutions of protected expression is a real and substantial one. Even the prospect of ultimate failure of such prosecutions by no means dispels their chilling effect on protected expression"); see also *Ashcroft* v. *Free Speech Coalition*, 535 U. S. 234, 244 (2002); *Gibson* v. *Florida Legislative Investigation Comm.*, 372 U. S. 539, 556–557 (1963); *Wieman* v. *Updegraff*, 344 U. S. 183, 195 (1952) (Frankfurter, J., concurring).

Had the FCC used traditional administrative notice-and-comment procedures, 5 U. S. C. §553, the two failures I have just discussed would clearly require a court to vacate the resulting agency decision. See *ACLU* v. *FCC*, 823 F. 2d 1554, 1581 (CADC 1987) ("Notice and comment rulemaking procedures obligate the FCC to respond to *all* significant comments, for the opportunity to comment is meaningless unless the agency responds to significant points raised by the public" (emphasis added; internal quotation marks omitted)). Here the agency did not make new policy through the medium of notice and comment proceedings. But the same failures here—where the policy

is important, the significance of the issues clear, the failures near complete—should lead us to the same conclusion. The agency's failure to discuss these two "important aspect[s] of the problem" means that the resulting decision is "'arbitrary, capricious, an abuse of discretion'" requiring us to remand the matter to the agency. *State Farm,* 463 U. S., at 43; *Overton Park,* 401 U. S., at 416.

III

The three reasons the FCC did set forth in support of its change of policy cannot make up for the failures I have discussed. Consider each of them. First, as I have pointed out, the FCC based its decision in part upon the fact that "bleeping/delay systems" technology has advanced. I have already set forth my reasons for believing that that fact, without more, cannot provide a sufficient justification for its policy change. *Supra,* at 11–16.

Second, the FCC says that the expletives here in question always invoke a coarse excretory or sexual image; hence it makes no sense to distinguish between whether one uses the relevant terms as an expletive or as a literal description. The problem with this answer is that it does not help to justify the *change* in policy. The FCC was aware of the coarseness of the "image" the first time around. See, *e.g.*, *Remand Order,* 21 FCC Rcd., at 13308, ¶23 (asserting that FCC has always understood the words as coarse and indecent). And it explained the first time around why it nonetheless distinguished between their literal use and their use as fleeting expletives. See, *e.g.*, *In re Application of WGBH Educ. Foundation,* 69 F. C. C. 2d, at 1254–1255, ¶¶10–11 (discussing First Amendment considerations and related need to avoid reduced broadcast coverage). Simply to announce that the words, whether used descriptively or as expletives, call forth similar "images" is not to address those reasons.

Third, the FCC said that "perhaps" its "most impor-

tan[t]" justification for the new policy lay in the fact that its new "contextual" approach to fleeting expletives is better and more "[c]onsistent with" the agency's "general approach to indecency" than was its previous "categorica[l]" approach, which offered broadcasters virtual immunity for the broadcast of fleeting expletives. *Remand Order*, *supra*, at 13308, ¶23. This justification, however, offers no support for the change without an understanding of *why, i.e., in what way,* the FCC considered the new approach better or more consistent with the agency's general approach.

The Solicitor General sets forth one way in which the new policy might be more consistent with statutory policy. The indecency statute prohibits the broadcast of "any . . . indecent . . . language." 18 U. S. C. §1464. The very point of the statute, he says, is to eliminate nuisance; and the use of expletives, even once, can constitute such a nuisance. The Solicitor General adds that the statutory word "any" indicates that Congress did not intend a safe-harbor for a fleeting use of that language. Brief for Petitioners 24–25. The fatal flaw in this argument, however, lies in the fact that the Solicitor General and not the agency has made it. We must consider the lawfulness of an agency's decision on the basis of the reasons the agency gave, not on the basis of those it *might have* given. *SEC* v. *Chenery Corp.*, 332 U. S. 194, 196–197 (1947); *State Farm, supra*, at 50. And the FCC did not make this claim. Hence, we cannot take it into account and need not evaluate its merits.

In fact, the FCC found that the new policy was better in part because, in its view, the new policy better protects children against what it described as "'the first blow'" of broadcast indecency that results from the "'pervasive'" nature of broadcast media. It wrote that its former policy of "granting an automatic exemption for 'isolated or fleeting' expletives unfairly forces viewers (including children)

to take 'the first blow.'" *Remand Order, supra,* at 13309, ¶25.

The difficulty with this argument, however, is that it does not explain the *change.* The FCC has long used the theory of the "first blow" to justify its regulation of broadcast indecency. See, *e.g., In re Enforcement of Prohibitions Against Broadcast Indecency in 18 U. S. C. §1464,* 5 FCC Rcd. 5297, 5302, ¶¶34–35 (1990). Yet the FCC has also long followed its original "fleeting expletives" policy. Nor was the FCC ever unaware of the fact to which the majority points, namely that children's surroundings influence their behavior. See, *e.g., In re Enforcement of Prohibitions Against Broadcast Indecency in 18 U. S. C. §1464,* 8 FCC Rcd. 704, 706, ¶11 (1993). So, to repeat the question: What, in respect to the "first blow," has changed?

The FCC points to no empirical (or other) evidence to demonstrate that it previously understated the importance of avoiding the "first blow." Like the majority, I do not believe that an agency must always conduct full empirical studies of such matters. *Ante,* at 15–16. But the FCC could have referred to, and explained, relevant empirical studies that suggest the contrary. One review of the empirical evidence, for example, reports that "[i]t is doubtful that children under the age of 12 understand sexual language and innuendo; therefore it is unlikely that vulgarities have any negative effect." Kaye & Sapolsky, Watch Your Mouth! An Analysis of Profanity Uttered by Children on Prime-Time Television, 2004 Mass Communication & Soc'y 429, 433 (Vol. 7) (citing two studies). The Commission need not have accepted this conclusion. But its failure to discuss this or any other such evidence, while providing no empirical evidence at all that favors its position, must weaken the logical force of its conclusion. See *State Farm,* 463 U. S., at 43 (explaining that an agency's failure to "examine the relevant data" is a factor in determining whether the decision is "arbitrary").

The FCC also found the new policy better because it believed that its prior policy "would as a matter of logic permit broadcasters to air expletives at all hours of a day so long as they did so one at a time." *Remand Order,* 21 FCC Rcd., at 13309, ¶25. This statement, however, raises an obvious question: Did that happen? The FCC's initial "fleeting expletives" policy was in effect for 25 years. Had broadcasters during those 25 years aired a series of expletives "one at a time?" If so, it should not be difficult to find evidence of that fact. But the FCC refers to none. Indeed, the FCC did not even claim that a change had taken place in this respect. It spoke only of the pure "logic" of the initial policy "permitting" such a practice. That logic would have been apparent to anyone, including the FCC, in 1978 when the FCC set forth its initial policy.

Finally, the FCC made certain statements that suggest it did not believe it was changing prior policy in any major way. It referred to that prior policy as based on "staff letters and dicta" and it said that at least one of the instances before it (namely, the Cher broadcast) would have been actionably indecent under that prior policy. *Id.*, at 13306–13307, 13324, ¶¶20–21, 60. As we all agree, however, in fact the FCC did change its policy in a major way. See *ante*, at 13. To the extent that the FCC minimized that fact when considering the change, it did not fully focus on the fact of change. And any such failure would make its decision still less supportable. See *National Cable,* 545 U. S., at 981.

IV

Were the question a closer one, the doctrine of constitutional avoidance would nonetheless lead me to remand the case. See *United States* v. *Jin Fuey Moy*, 241 U. S. 394, 401 (1916) ("A statute must be construed, if fairly possible, so as to avoid not only the conclusion that it is unconstitutional but also *grave doubts* upon that score" (emphasis

added)). That doctrine seeks to avoid unnecessary judicial consideration of constitutional questions, assumes that Congress, no less than the Judicial Branch, seeks to act within constitutional bounds, and thereby diminishes the friction between the branches that judicial holdings of unconstitutionality might otherwise generate. See *Almendarez-Torres* v. *United States*, 523 U. S. 224, 237–238 (1998); see also *Solid Waste Agency of Northern Cook Cty.* v. *Army Corps of Engineers*, 531 U. S. 159, 172–173 (2001); *Edward J. DeBartolo Corp.* v. *Florida Gulf Coast Building & Constr. Trades Council*, 485 U. S. 568, 575 (1988); *Rescue Army* v. *Municipal Court of Los Angeles*, 331 U. S. 549, 571 (1947); *Ashwander* v. *TVA*, 297 U. S. 288, 345–348 (1936) (Brandeis, J., concurring). The doctrine assumes that Congress would prefer a less-than-optimal interpretation of its statute to the grave risk of a constitutional holding that would set the statute entirely aside. See *Almendarez-Torres*, *supra*, at 238 (construction of statute that avoids invalidation best reflects congressional will); cf. *United States* v. *Booker*, 543 U. S. 220, 249, 267 (2005).

Unlike the majority, I can find no convincing reason for refusing to apply a similar doctrine here. The Court has often applied that doctrine where an agency's regulation relies on a plausible but constitutionally suspect interpretation of a statute. See, *e.g.*, *Solid Waste Agency*, *supra*, at 172–174; *NLRB* v. *Catholic Bishop of Chicago*, 440 U. S. 490, 506–507 (1979). The values the doctrine serves apply whether the agency's decision does, or does not, rest upon a constitutionally suspect interpretation of a statute. And a remand here would do no more than ask the agency to reconsider its policy decision in light of the concerns raised in a judicial opinion. Cf. *Fullilove* v. *Klutznick*, 448 U. S. 448, 551 (1980) (STEVENS, J., dissenting) (a holding that a congressional action implicating the Equal Protection Clause "was not adequately preceded by a consideration of less drastic alternatives or adequately explained by a

statement of legislative purpose would be far less intrusive than a final determination that the substance of' that action was unconstitutional). I would not now foreclose, as the majority forecloses, our further consideration of this matter. (Of course, nothing in the Court's decision today prevents the Commission from reconsidering its current policy in light of potential constitutional considerations or for other reasons.)

V

In sum, the FCC's explanation of its change leaves out two critically important matters underlying its earlier policy, namely *Pacifica* and local broadcasting coverage. Its explanation rests upon three considerations previously known to the agency ("coarseness," the "first blow," and running single expletives all day, one at a time). With one exception, it provides no empirical or other information explaining why those considerations, which did not justify its new policy before, justify it now. Its discussion of the one exception (technological advances in bleeping/delay systems), failing to take account of local broadcast coverage, is seriously incomplete.

I need not decide whether one or two of these features, standing alone, would require us to remand the case. Here all come together. And taken together they suggest that the FCC's answer to the question, "Why change?" is, "We like the new policy better." This kind of answer, might be perfectly satisfactory were it given by an elected official. But when given by an agency, in respect to a major change of an important policy where much more might be said, it is not sufficient. *State Farm,* 463 U. S., at 41–42.

For these reasons I would find the FCC's decision "arbitrary, capricious, an abuse of discretion," 5 U. S. C. §706(2)(A), requiring remand of this case to the FCC. And I would affirm the Second Circuit's similar determination.

With respect, I dissent.

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	(j+k)*12 $	(h + i +l)	col (m) subtotal/col (m) total	(B)(4)	(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp $	col(s) subtotal/col (s) Total
a	b	c	d	e	f	y	h	i	j	k	l	m	n	o	p	q	r	s	t
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Prepared by: Julia Maddux Date: 11/10/08
Reviewed by ____Date:____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	u	h	i	j	k	l	m	n		p	q	r	s	t
Subtotal Compressors																			

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Prepared by: Julia Maddux Date: 11/10/08
Reviewed by _____Date: _____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Willams 2006 typical exp $	Willams 2006 typical exp $	(j+k)*12 $	(h + i +l)	col (m) subtotal/col (m) total	(B)(4) (B)(7)(e)	(m + o)	col (p) subtotal/col(p) Total		Willams 2006 typical exp $	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
(B)(4) (B)(7)(e)																		(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 11/10/08
Reviewed by_____Date_____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	(j+k)*12 $	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp $	col(s) subtotal/col (s) Total
a	b	c	d	e	f	u	h	i	j	k	l	m	n		p	q	r	s	t
Subtotal Dehydrators																			
Subtotal Pipeline & Allowed Booster Compressors																			
Grand Total																			

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are

(B)(4)
(B)(7)(e)

Allowed
Disallowed

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddux Date: 11/10/08
Reviewed by:_____Date:_____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map			Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
Subtotal Dehydrators																			
Subtotal Pipeline & Allowed Booster Compressors																			
Grand Total																			

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)

Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME

(B)(7)(e) (B)(4)

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)

Allowed (B)(4)
Disallowed (B)(7)(e)

Prepared by: Julia Maddux Date: 11/10/08
Reviewed by:_____Date:_____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$	$	$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Used 2008 typical mo expense

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk						Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col(p) total	(B)(4) (B)(7)(e)	(p + r)	col (s) subtotal/col(s) Total	
							$	$	$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
(B)(4) (B)(7)(e)																				(B)(4) (B)(7)(e) overahaul allocation
Subtotal Compressors																				

11/3/08
11-10-2008 Manzanares System Costs
JAM

Prepared by: Julia Maddux Date: 11/3/08
Reviewed by: ____Date: ____
Work paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$	$	$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Subtotal Dehydrators

(B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(h + l + o)	col (p) subtotal/(p) total		(p + r)	col (s) subtotal/col(s) Total	
							$	$	$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Grand Total

Index Price = (B)(4) (B)(7)(e) 0.7660

Assumption, operating costs = (O & M) + (G & A) + (TME)

Operating costs - TME = (O & M) + (G & A) + (TME) - operating expense not included in TME

(B)(4) (B)(7)(e)

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expense Sheet (B)(4) (B)(7)(e)
All dehydrators are

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1												
2												
3												
4												
5												
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21												
22												
23												
24				(B)(4)		(B)(4)						
25				(B)(7)(e)								
26												
27												
28						(B)(7)(e)						
29												
30												
31												
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76												

000250

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
77												
78												
79												
80												
81												
82												
83												
84												
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86												
87												
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108												
109			(B)(4)									
110			(B)(7)(e)									
111			(B)(4)									
112												
113												
114												
115			(B)(7)(e)									
116												
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152												

000251

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
153												
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180				(B)(4)								
181				(B)(7)(e)		(B)(4)						
182												
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185						(B)(7)(e)						
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
229												
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261		(B)(4)							(B)(4)			
262												
263				(B)(4)								
264												
265		(B)(7)(e)		(B)(7)(e)					(B)(7)(e)			
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
305												
306												
307												
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328												
329												
330												
331								(B)(4)				
332												
333	(B)(4)											
334												
335								(B)(7)(e)				
336												
337	(B)(7)(e)		(B)(4)									
338												
339			(B)(7)(e)									
340												
341												
342												
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000254

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
381												
382												
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414		(B)(4)		(B)(4)								
415				(B)(7)(e)								
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417												
418		(B)(7)(e)										
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000255

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
457												
458												
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485				(B)(4)								
486				(B)(7)(e)								
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000256

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
533												
534												
535												
536												
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541												
542												
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558												
559												
560												
561			(B)(4)									
562												
563			(B)(7)(e)									
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
609												
610												
611												
612												
613												
614												
615												
616												
617												
618												
619												
620												
621												
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631												
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635												
636			(B)(4)									
637												
638			(B)(7)(e)									
639												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1901												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1977												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2053												
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2127												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2129												
2130												
2131												
2132												
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2165				(B)(7)(e)								
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2168												
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2170												
2171												
2172				(B)(4)								
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2201												
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2203												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2205												
2206												
2207												
2208												
2209												
2210												
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2239												
2240				(B)(4)								
2241												
2242												
2243												
2244				(B)(7)(e)								
2245												
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2248												
2249												
2250												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2281												
2282												
2283												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2357												
2358												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2433												
2434												
2435												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2509												
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2537												
2538				(B)(7)(e)								
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2545				(B)(4)								
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2585												
2586												
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2614				(B)(7)(e)								
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2661												
2662												
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2695				(B)(7)(e)								
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2737												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2813												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2889												
2890												
2891												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2965												
2966												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3041												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3117												
3118												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3193												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3269												
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3304			(B)(4)									
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3345												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3421												
3422												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3497												
3498												
3499												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3573												
3574												
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3601												
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3609				(B)(4)								
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3649												
3650												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3725												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3801												
3802												
3803												
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3842				(B)(4)								
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3877												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
3953												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
4029												
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
4105												
4106												
4107												
4108												
4109				(B)(4) (B)(7)(e)								
4110												
4111												
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1												
2												
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
77	[redacted]											
78	[redacted]											
79	[redacted]											
80	[redacted]											
81	[redacted]											
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111	[redacted]			(B)(7)(e)								
112	[redacted]											
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114	[redacted]											
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116	[redacted]			(B)(4)								
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152	[redacted]											

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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
153												
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Dehydrators
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
457	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
458	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
459	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
460	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
461	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
462	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
463	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
464	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
465	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
466	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
467	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
468	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
469	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
470	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
471	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
472	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
473	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
474	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
475	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
476	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
477	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
478	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
479	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
480	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
481	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
482	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
483	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
484	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
485	[redacted]	[redacted]	[redacted]	(B)(4)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
486	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
487	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
488	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
489	[redacted]	[redacted]	[redacted]	(B)(7)(e)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
490	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
491	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
492	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
493	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
494	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
495	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
496	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
497	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
498	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
499	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
500	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
501	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
502	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
503	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
504	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
505	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
506	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
507	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
508	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
509	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
510	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
511	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
512	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
513	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
514	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
515	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
516	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
517	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
518	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
519	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
520	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
521	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
522	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
523	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
77												
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
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1366												
1367												
1368												

000329

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1369												
1370												
1371												
1372												
1373												
1374												
1375												
1376												
1377												
1378												
1379												
1380												
1381												
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1391												
1392												
1393												
1394												
1395												
1396												
1397												
1398												
1399												
1400												
1401				(B)(7)(e)								
1402												
1403												
1404												
1405												
1406												
1407				(B)(4)								
1408												
1409												
1410												
1411												
1412												
1413												
1414												
1415												
1416												
1417												
1418												
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1435												
1436												
1437												
1438												
1439												
1440												
1441												
1442												
1443												
1444												

000330

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1445												
1446												
1447												
1448												
1449												
1450												
1451												
1452												
1453												
1454												
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1465												
1466												
1467												
1468												
1469												
1470												
1471												
1472												
1473												
1474												
1475				(B)(7)(e)								
1476												
1477												
1478												
1479												
1480												
1481				(B)(4)								
1482												
1483												
1484												
1485												
1486												
1487												
1488												
1489												
1490												
1491												
1492												
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1511												
1512												
1513												
1514												
1515												
1516												
1517												
1518												
1519												
1520												

000331

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1521												
1522												
1523												
1524												
1525												
1526												
1527												
1528												
1529												
1530												
1531												
1532												
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1541												
1542												
1543												
1544												
1545												
1546												
1547												
1548												
1549												
1550												
1551				(B)(7)(e)								
1552												
1553												
1554												
1555												
1556												
1557				(B)(4)								
1558												
1559												
1560												
1561												
1562												
1563												
1564												
1565												
1566												
1567												
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1586												
1587												
1588												
1589												
1590												
1591												
1592												
1593												
1594												
1595												
1596												

000332

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1597												
1598												
1599												
1600												
1601												
1602												
1603												
1604												
1605												
1606												
1607												
1608												
1609												
1610												
1611												
1612												
1613												
1614												
1615												
1616												
1617												
1618												
1619												
1620												
1621												
1622												
1623												
1624												
1625												
1626												
1627												
1628												
1629												
1630												
1631				(B)(4)								
1632												
1633												
1634												
1635				(B)(7)(e)								
1636												
1637												
1638												
1639												
1640												
1641												
1642												
1643												
1644												
1645												
1646												
1647												
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1661												
1662												
1663												
1664												
1665												
1666												
1667												
1668												
1669												
1670												
1671												
1672												

000333

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
1673												
1674												
1675												
1676												
1677												
1678												
1679												
1680												
1681												
1682												
1683												
1684												
1685												
1686												
1687												
1688												
1689												
1690												
1691												
1692												
1693												
1694												
1695												
1696												
1697												
1698												
1699												
1700												
1701				(B)(4)								
1702												
1703												
1704												
1705				(B)(7)(e)								
1706												
1707												
1708												
1709												
1710												
1711												
1712												
1713												
1714												
1715												
1716												
1717												
1718												
1719												
1720												
1721												
1722												
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1726												
1727												
1728												
1729												
1730												
1731												
1732												
1733												
1734												
1735												
1736												
1737												
1738												
1739												

000334

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/ Dehydrators	Capacity	Model / Manufacturer	Owner	[redacted]	Rental Costs/Mo Willams 2006 typical exp $ j	O & M/Mo Willams 2006 typical exp $ k	[redacted]	Total Known Costs, Depreciation & (h + i +l) m	Allocation % col (m) subtotal/col (m) total n	Allocated Other Operational $52,210,052 (subtotal col n)* o	Total Costs (m + o) p	Unbundling % col (p) subtotal/col(p) Total q	Comments r	[redacted]
(B)(4) (B)(7)(e)									(B)(7)(e) (B)(4)								(B)(7)(e)
Sims Mesa			Compressor														
Subtotal Compressors								(B)(4)							(B)(7)(e)		(B)(4) (B)(7)(e)
(B)(7)(e) (B)(4)																	(B)(4)
Subtotal Dehydrators											(B)(4)		(B)(7)(e)				(B)(7)(e)
(B)(7)(e)																	(B)(7)(e) (B)(4)
Subtotal Pipeline & Allowed Booster Compressors																	
Grand Total											(B)(4)		(B)(7)(e)				

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (B)(4) (B)(7)(e)
Operating costs - TME =

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)

Allowed ***39.73%***
Disallowed ***60.27%***

Prepared by: Julia Maddux Date: 11/10/08
Reviewed by:_____Date:_____
Work Paper: Manzanares Cost

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	[redacted]	[redacted]
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
7	**Disallowed Costs - Compressors**															
8–46				(B)(4) (B)(7)(e)											(B)(4) (B)(7)(e)	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	[redacted]	[redacted]
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
47	[redacted]															
48																
49																
50																
51																
52																
53																
54																
55																
56																
57																
58																
59																
60																
61																
62																
63																
64					(B)(4)											
65															(B)(7)(e)	
66																
67					(B)(7)(e)											
68																
69																
70																
71																
72																
73																
74																
75																
76																
77																
78																
79																
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81																
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85																
86																
87																

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2008 typical exp	col(o) subtotal/ col (o) total
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
88																
89																
90																
91																
92																
93							(B)(7)(e)									
94															(B)(7)(e)	
95																
96																
97							(B)(4)								(B)(4)	
98																
99																
100																
101																
102																
103																
104																
105																(B)(7)(e)
106	Subtotal Compressors															(B)(4)
107	**Disallowed Costs - Dehydrators**															
108																
109																
110																
111																
112																
113															(B)(7)(e)	
114																
115																
116							(B)(7)(e)									
117															(B)(4)	
118																
119																
120																
121																
122																
123																
124																
125																
126																
127																

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp	Col (o) subtotal/ Col (o) Total
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
128																
129																
130																
131																
132																
133																
134																
135																
136																
137																
138																
139																
140																
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157																
158																
159																
160																
161																
162																
163																
164																
165																
166																
167																
168																

(B)(7)(e)
(B)(4)

(B)(7)(e)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2008 Typical exp	Col(o) subtotal/ Col (o) Total
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
169																
170																
171																
172																
173																
174																
175																
176																
177																
178																
179																
180							(B)(4)									
181																
182															(B)(7)(e)	
183							(B)(7)(e)									
184																
185																
186																
187																
188																
189																
190																
191																
192																
193																
194	Subtotal Dehydrators															(B)(4)

(B)(7)(e)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 Typical exp	col (o) subtotal/ col (o) Total
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
195	**Allowed Costs**															
196																
197										(B)(4)		(B)(4)				
198																
199										(B)(7)(e)		(B)(7)(e)				
200																
201																
202																
203	(B)(4)															
204																
205																
206	(B)(7)(e)															
207																
208																
209																
210																
211				(B)(7)(e)				(B)(4)								
212																
213								(B)(7)(e)								
214																
215																
216																
217																
218																
219																
220																
221																
222																
223																
224																
225																
226																
227																
228																

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Cost Project - Project Number: 1138															
4	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for Fuel
5	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp	Col(o) subtotal/ Col (o) Total
6	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
229																
230																
231																
232																
233						(B)(7)(e)										
234																
235						(B)(4)										
236																
237																
238																
239																
240																
241																
242	Subtotal Pipeline & Allowed Booster Compressors													(B)(7)(e)		(B)(7)(e)
243	Grand Total													(B)(4)	(B)(4)	(B)(4)
244																
245																
246													Allowed		Allowed Fuel	(B)(4)
247	Assumption, operating costs = (O & M) + (G & A) + (TME)												Disallowed		Disallowed Fuel	(B)(7)(e)
248	**Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME**															
249	(See typical monthly expense workpaper)															
250	Where (O & M) = Operating & Maintainence															
251	Where (G & A) = General & Administrative															
252	Where (TME) = Typical Monthly Expense															
253	From Williams Financial Data & Typical Expenses Sheet															
254	All dehydrators are (B)(4)															
255	Operational and depreciation expense for (B)(7)(e)															

Calculation Cross Check - Cost Sheets to Source

	A	B	C	D	E	F	G	H	I
1	**Calculation Cross Check - Cost Sheets to Source**								
2									
3									
4									
5	**'Depreciation**					**ROI**			
6	cost sheet pipe line					cost sheet pipeline			
7	source pipeline		(B)(7)(e)			source pipeline		(B)(4) (B)(7)(e)	
8	Variance					Variance			
9									
10	cost sheet compressors					cost sheet compressors- ROI			
11	source compressors		(B)(7)(e)			source compressors ROI		(B)(4) (B)(7)(e)	
12	Variance					Variance			
13									
14	cost sheet dehydrators		(B)(4)			cost sheet dehydrators ROI			
15	source dehydrators		(B)(7)(e)			source dehydrators ROI		(B)(4) (B)(7)(e)	
16	Variance					Variance			
17									
18	Total Depreciation cost sheet		(B)(4)			Total cost sheet ROI		(B)(4)	
19	Source total Depreciaton		(B)(7)(e)			Source total Depreciaton RO		(B)(7)(e)	
20	Variance					Variance			
21									
22									

Calculation Cross Check Unbundling Percentage Sheet to Source

	A	B	C	D	E	F	G	H	I
23	**Calculation Cross Check Unbundling Percentage Sheet to Source**								
24									
25	**Depreciation**								
26	**Unbundled % calculation**	**Comp**	**Dehy**	**Pipeline**	**Total**	**Variance**	**Grand totals**		
27	Known								
28	'Uknown			(B)(4)					
29	Comp Adj			(B)(7)(e)					
30									
31	Source								
32									
33									
34									
35	Comp Adj								
36	Ext Known								
37	' Unknown	(B)(4)	(B)(4)						
38		(B)(7)(e)	(B)(7)(e)						
39	# Ext comp								
40									
41									
42	Wes Known								
43	Unknown								
44									
45									

Calculation Cross Check Unbundling Percentage Sheet to Source

	A	B	C	D	E	F	G	H	I
46	**Calculation Cross Check Unbundling Percentage Sheet to Source**								
47									
48	**ROI**								
49	Unbundled % calculation	Comp	Dehy	Pipeline	Total		Grand Totals		
50	Known								
51	'Uknown								
52	Comp Adj		(B)(7)(e) (B)(4)						
53									
54	Source								
55									
56									
57									
58	Comp Adj								
59	Ext Known								
60	Unknown								
61									
62	# Ext comp	(B)(4)	(B)(7)(e)						
63		(B)(7)(e)							
64									
65	Wes Known								
66	Unknown								
67									

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
11	a	b	c	d	e	f	g	h	i	j		
18												
19			(B)(4)					(B)(7)(e)				
20								(B)(4)				
21			(B)(7)(e)									
23									(B)(4)			
24								(B)(4)				
25								(B)(7)(e)	(B)(7)(e)			
30								(B)(7)(e)				
36								(B)(4) (B)(7)(e)				

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
5												
6												
7												
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
39												
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43												
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47			(B)(7)(e)									
48												
49												
50									(B)(7)(e)			
51			(B)(4)									
52									(B)(4)			
53								(B)(4)				
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55								(B)(7)(e)				
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61												
62												
63												
64								(B)(7)(e)				
65								(B)(4)				

MANZANARES SYSTEM COSTS - 2006

Draft 12/30/08

MONTHLY EXPENSES

	A	B	C	D	E	F	G	H	I	J	K	L
5												
6												
7												
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
66												
67								(B)(4)				
68								(B)(7)(e)				
69												
70												
71												
72								(B)(7)(e)				
73												
74												
75									(B)(7)(e)			
76												
77								(B)(7)(e)	(B)(4)			
78			(B)(7)(e)									
79												
80			(B)(4)									
81												
82												
83												
84								(B)(4)				
85								(B)(7)(e)				
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89												
90												
91												
92												

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
5												
6												
7												
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
93												
94												
95								(B)(7)(e)				
96								(B)(4)				
97												
98												
99												
100				(B)(4)								
101									(B)(4)			
102									(B)(7)(e)			
103								(B)(4)				
104												
105								(B)(7)(e)				
106												
107												
108												
109												
110	Subtotal Compressors											
111								(B)(7)(e)				
112									(B)(4)			
113												
114												
115				(B)(4)								
116				(B)(7)(e)								
117												
118												
119												

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
11	a	b	c	d	e	f	g	h	i	j		
120–146	(B)(4) (B)(7)(e)								(B)(7)(e) (B)(4)			

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
5												
6												
7												
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
147												
148												
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152												
153												
154												
155												
156												
157			(B)(7)(e)						(B)(7)(e)			
158												
159												
160												
161			(B)(4)						(B)(4)			
162												
163												
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173												

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

	A	B	C	D	E	F	G	H	I	J	K	L
5												
6												
7												
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
174												
175												
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177												
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179												
180												
181												
182												
183												
184												
185				(B)(4)					(B)(4)			
186												
187												
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192												
193												
194												
195												
196												
197	Subtotal Dehydrators											
198												
199		(B)(4)		(B)(7)(e)					(B)(7)(e)			
200												

	A	B	C	D	E	F	G	H	I	J	K	L
5					**MANZANARES SYSTEM COSTS - 2006**							
6					**MONTHLY EXPENSES**							
7			**Draft 12/30/08**									
8	**Location**			**Type Equip**	**Capacity**	**Model / Manufacturer**	**Owner**	**Rental Costs/Mo**	**O & M/Mo**	**Total Yearly Operational Cost**		
9	**Williams Manzanares System Map**	**Trunk**	**Allowed (A) or Not Allowed (NA)**	**Williams Manzanares Compressors/Dehydrators**				**Willams 2006 typical exp $**	**Willams 2006 typical exp $**	**(h + i)*12**		
10												
11	**a**	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**		
201												
202					(B)(7)(e)							
203												
204					(B)(4)							
205												
206												
207	**Subtotal Pipeline & Allowed Booster Compressors**											
208	**Grand Total**											
209	Total O & M and GA Expenses											
210	Pipeline) & M and GA Expenses							Yearly Operational Costs		(B)(4)		
211								'Yrl Cost less Compr & Dehy				
212								Pipeline Costs		- (B)(7)(e) -		
213												

	A	B	C	D	E	F	G	H	I	J	K	L
5						MANZANARES SYSTEM COSTS - 2006						
6						MONTHLY EXPENSES						
7			Draft 12/30/08									
8	Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost		
9	Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12		
10												
11	a	b	c	d	e	f	g	h	i	j		
214												
215												
216												

217 **Williams Financial Data and Typical Equipment Expenses**

218 **Exhibit "D"**

	O&M					G&A				
(000's)	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Manzanares Gathe	(B)(4)					(B)(7)(e)				

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrly Exp	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yearly Exp
(B)(4)	(B)(4)		(B)(7)(e)			(B)(4)				
						(B)(4)			(B)(7)(e)	

	A	B	C	D	E	F	G	H	I	J	K	L
5						**MANZANARES SYSTEM COSTS - 2006**						
6						**MONTHLY EXPENSES**						
7			**Draft 12/30/08**									
8	**Location**			**Type Equip**	**Capacity**	**Model / Manufacturer**	**Owner**	**Rental Costs/Mo**	**O & M/Mo**	**Total Yearly Operational Cost**		
9	**Williams Manzanares System Map**	**Trunk**	**Allowed (A) or Not Allowed (NA)**	**Williams Manzanares Compressors/Dehydrators**				**Willams 2006 typical exp $**	**Willams 2006 typical exp $**	**(h + i)*12**		
10												
11	**a**	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**		
239	Dehydration											
240		O&M	O/H Resv.	Fluid	**Total**	**Total Yrly Exp**						
241				(B)(4)		(B)(7)(e)						

	A	B	C	L	M	N
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
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17						
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20						
21						
22						
23						
24						
25						
26		(B)(4)				
27						
28						
29		(B)(7)(e)				
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
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64						
65						
66						

	A	B	C	L	M	N
67						
68						
69						
70						
71						
72						
73						
74						
75						
76						
77						
78						
79						
80		(B)(4)				
81						
82						
83						
84		(B)(7)(e)				
85						
86						
87						
88						
89						
90						
91						
92						
93						
94						
95						
96						
97						
98						
99						
100						
101						
102						
103						
104						
105						
106						
107						
108						(B)(4)
109						
110						
111						(B)(7)(e)

	E	F	G	H	I	J	K	L	M	N
5	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost
7										
70										
73										
91										
105										
159										
163										
206										
265										
296										
343										
345										
352										
355										
378	(B)(4)									
442										
466	(B)(7)(e)									(B)(4)
512										
517										
519										(B)(7)(e)
543										
561										
687										
721										
757										
828										
880										
918										
921										
945										
1345										
1360										
1371										
1399										
1430										
1610										
1627										
1661										
1663										
1783								$	(B)(4) (B)(7)(e)	
1784										
1785	Grand Total									

	A	B	C
1			
2	**Unknown Compressor Locations from Compressor Depreciation Schedule**		
3			
4			
5			
6			
7			
8			
9		(B)(4)	
10			
11		(B)(7)(e)	
12			
13			
14			
15			
16			
17			
18	Total Unkown Depreciation		

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1	**Manzanares Compressors**															
2	**As of 12-31-2006**															
3																
4							**In Service**								(m + n)	(o * .0609)* 1.3
5	**Line**	**Asset Number**	**Asset Description**	**Retirement Unit**	**Legacy Location Description**	**In Service Date**	**First/Second Half Year**	**Service Life**	**Remaining Life**	**Salvage Value**	**Original Cost**	**Accum Depreciation**	**Net Book Value**	**Yearly Cost**	**Undepreciated Bal Beginning of Year**	**BBB 2006 .0609 * 1.3**
6	66															
7	67															
8	68															
9	69															
10	70															
11	71															
12	72															
13	73															
14	74															
15	75															
16	76															
17	77															
18	78															
19	79															
20	80															
21	81															
22	82				(B)(4)											
23																
24	849				(B)(7)(e)											
25	850															
26	851															
27	852															
28	853															
29	854															
30	855															
31	856															
32	857															
33	858															
34	859															
35	860															
36	861															
37	862															
38	863															
39	864															
40	865															
41	866															
42	867															
43	868															
44	869															
45	870															
46	871															
47	872															
48	873															
49	874															
50	875															
51	876															
52	877															

Manzanares Compressors
As of 12-31-2006

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
4							In Service								(m + n)	(B)(7)(e) (B)(4)
5	Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
53–87																
88			Subtotal													$ (B)(4)
89			Grandtotal													$

(B)(4)

(B)(7)(e)

	A	B	C	D	E	N
1	**Manzanares Dehydrators**					
2	**As of 12-31-2006**					
3						
4						
5	**Line**	**Asset Number**	**Asset Description**	**Retirement Unit**	**Legacy Location Description**	**Yearly Costs**
19						
21						
49						
61						
63						
71						
81						
87						
97						
99						
105						
110						
117					(B)(4)	
122						
132					(B)(7)(e)	
136						
144						
148						
155						
162						
175						
189						
198						
201						
205						
537						
539						
555						
556					**Grand Total**	
557						

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1	**Manzanares Dehydrators**																
2	**As of 12-31-2006**																
3																	
4			**ROI Dehydrators**														
5	**Line**	**Asset Number**	**Asset Description**	**Retirement Unit**	**Legacy Location Description**	**In Service Date**	**In Service First/Second Half Year**	**Service Life**	**Remaining Life**	**Salvage Value**	**Original Cost**	**Accum Depreciation**	**Net Book Value**	**Yearly Costs**	**Undepreciated Bal Beginning of Year**	**BBB 2006 .0609 * 1.3**	
19																	
21																	0
49																	0
61																	0
63																	0
71																	0
81																	0
87																	0
97																	0
99																	0
105																	0
110					(B)(4)											(B)(4)	0
117																	0
122																	0
132																	0
136																	0
144					(B)(7)(e)											(B)(7)(e)	0
148																	0
155																	0
162																	0
175																	0
189																	0
198																	0
201																	0
205																	0
537																	0
539																	0
555																	0
556																	0
557					**Grand Total**								$ (B)(4)		(B)(7)(e)		0.00

Manzanares Pipeline
As of 12-31-2006

	A	B	C	D	E	F	H	I	J	K	L	M	N	O	P
4													(k/(h/12)		
5	Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
6	1														
7	2														
8	3														
9	4														
10	5														
11	6														
12	7														
13	8														
14	9														
15	10														
16	11														
17	12														
18	13														
19	14														
20	15														
21	16														
22	17														
23	18														
24	19														
25	20														
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56	51														
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62	57														
63	58														
64	59														
65	60														
66	61														
67	62														
68	63														
69	64														

(B)(4)

(B)(7)(e)

	A	B	C	D	E	F	H	I	J	K	L	M	N	O	P
70	65														
71	66														
72	67														
73	68														
74	69														
75	70														
76	71														
77	72														
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136	131														
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140	135														
141	136														

(B)(4)

(B)(7)(e)

	A	B	C	D	E	F	H	I	J	K	L	M	N	O	P
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143	138														
144	139														
145	140														
146	141														
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211	206														
212	207														
213	208														

(B)(4)

(B)(7)(e)

	A	B	C	D	E	F	H	I	J	K	L	M	N	O	P
214	209														
215	210														
216	211														
217	212														
218	213														
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246	241														
247	242														
248	243				(B)(4)										
249	244														
250	245														
251	246														
252	247				(B)(7)(e)										
253	248														
254	249														
255	250														
256	251														
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258	253														
259	254														
260	255														
261	256														
262	257														
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282	277														
283	278														
284	279														
285	280														

	A	B	C	D	E	F	H	I	J	K	L	M	N	O	P
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796	(B)(4)				
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4159	**Grand Total**				

	A	B	C
1	2006 Total Manzanares Gathering Costs		
2	O & M	(B)(4)	
3	G & A		
4		(B)(7)(e)	Million
5			
6	Compression Cost		
7	L74042GL		
8	Williams	Exterran	
9	(B)(4)	(B)(4)	
10			
11	(B)(7)(e)	(B)(7)(e)	
12			
13	12	12	
14		(B)(4)	

(B)(7)(e) (B)(7)(e)

Williams Manzanares Allocation Example

Location	Unit Type	Unit Ownership	Direct Depreciation	Indirect Depreciation	Area Depreciation	Direct ROI	Indirect ROI	Area ROI	Rent	O&M	Total Costs	
(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)

	Total	Exterran	Williams
Units	106	30	76
Total Indirect Depreciation	(B)(4)	(B)(4)	(B)(4)
Total Indirect ROI	(B)(7)(e)		

	Total	Exterran	Williams
Units	10	2	8
"29-6" Area Depreciation	(B)(4)	(B)(4)	(B)(4)
"29-6" Area ROI			

(B)(7)(e) Maintenances Costs =((B)(4) (B)(7)(e)
Unit Costs =(

(B)(4) (B)(7)(e)

(B)(4) (B)(4)

Line #	Allowed Comp	b	c	d	e (b+c+d)	f (E49/E54)	g	h (H50/H52)
		Dep	ROI	Op				
49	pl							
50	Allowed Comp		(B)(4)	(B)(7)(e)			(B)(4)	(B)(4)
51	Not Allowed Comp							(B)(7)(e)
52	Total Comp							
53	dehy						(B)(7)(e)	
54	Total							

	A	B	C	D	E	F	G	H
1	**New Mexico Oil & Gas Bureau**							
2	**205 Federal Royalty Audit Program**							
3	**Cost Project**							
4	**Project Number: 1138**							
5								
6	**Gas Daily**							
7	**INSIDE FERC**							
8								
9	**El Paso Natural Gas - San Juan Basin 2006**							
10		**Monthly**						
11	Jan							
12	Feb							
13	Mar							
14	Apr							
15	May	(B)(4)						
16	Jun							
17	Jul							
18	Aug							
19	Sep		(B)(4)					
20	Oct		(B)(7)(e)					
21	Nov							
22	Dec							
23	**Yearly avg price**							

Index Price

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Barton, Jayne

From: Stephens, Larry [Larry.Stephens@mms.gov]
Sent: Tuesday, April 13, 2004 1:53 PM
To: Lougee, John
Cc: Wiley, Robert; Jones, Ronnie
Subject: Gas Plant Statements - Blanco Plant

Mr. Wiley (MMS, Denver) (B)(4) (B)(5) (B)(7)(e)

(B)(4)

(B)(4) (B)(5) (B)(7)(e)

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(B)(4)

(B)(5)

Barton, Jayne

From: Maddux, Julia, TRD
Sent: Wednesday, June 25, 2008 9:43 AM
To: Lougee, Jack R., TRD
Subject: FW: Manzanares System Data Request #3
Attachments: Response Letter #3.doc; Asset Net Book Value2.xls

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Bracher, Chad [mailto:Chad.Bracher@Williams.com]
Sent: Wednesday, June 25, 2008 9:30 AM
To: Maddux, Julia, TRD; Brown, Charles R.
Cc: Ernest, Mike
Subject: RE: Manzanares System Data Request #3

Julia: Attached you will find a cover letter and a report detailing the information requested. These items are also being sent today via FedEx to your office. Mr. Lougee will receive the packet in the mail, but I do not have his email address to include him. Please call me or Charlie when you have had time to review and we can discuss it in more detail.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138
918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Thursday, April 24, 2008 2:41 PM
To: Brown, Charles R.; Bracher, Chad
Cc: Ernest, Mike
Subject: Manzanares System Data Request #3

Subject: Manzanares System Data Request # 3

Charlie & Chad,

I have attached the data request for additional information following our teleconference on April 18th.

Julia Maddux

Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Wednesday, August 06, 2008 7:31 AM
To: Lougee, Jack R., TRD
Subject: FW: Manzanares Data Request #4

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Wednesday, August 06, 2008 7:30 AM
To: Maddux, Julia, TRD
Subject: RE: Manzanares Data Request #4

(B)(7)(e) **(B)(5)** **(B)(4)**

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us] **(B)(4)**
Sent: Wednesday, August 06, 2008 7:28 AM **(B)(5)**
To: Ernest, Mike
Subject: Manzanares Data Request #4

Mike,

(B)(7)(e) **(B)(5)** **(B)(4)**

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, August 01, 2008 7:22 AM
To: Lougee, Jack R., TRD
Subject: FW: Manzanares data request # 4
Attachments: Response Letter #4.doc

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Bracher, Chad [mailto:Chad.Bracher@Williams.com]
Sent: Thursday, July 31, 2008 3:10 PM
To: Maddux, Julia, TRD; Brown, Charles R.
Cc: Mike.Ernest@mms.gov
Subject: RE: Manzanares data request # 4

Julia: Attached you will find a letter providing the specific information you requested. In addition to this email, a hardcopy has been mailed to your office via FedEx.

Please contact me or Charlie should you have any questions.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138
918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Thursday, July 24, 2008 11:45 AM
To: Brown, Charles R.
Cc: Bracher, Chad
Subject: Manzanares data request # 4

Manzanares Data request # 4

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Wednesday, June 04, 2008 7:34 AM
To: Lougee, Jack R., TRD
Subject: FW: Manzanares System Data Request #3

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Wednesday, June 04, 2008 6:39 AM
To: Maddux, Julia, TRD
Cc: Morris, James
Subject: RE: Manzanares System Data Request #3

Julia

I'm satisfied with the data. Mary Williams gives her okay to grant Williams their requested time extension.

(B)(4)

Mike

(B)(5)

From: Brown, Charles R. [mailto:Charlie.Brown@Williams.com]
Sent: Tuesday, June 03, 2008 3:54 PM
To: Maddux, Julia; Ernest, Mike
Cc: Bracher, Chad
Subject: Manzanares System Data Request #3

(B)(4)

(B)(5)

(B)(7)(e)

Charlie Brown

918-573-9997

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Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Monday, September 08, 2008 2:19 PM
To: 'Charlie.Brown@Williams.com'; 'Bracher, Chad'
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: Manzanares Data Request 5

Re: Williams Financial Data and Typical Equipment Expenses worksheet 2006

Charlie,

(B)(4)
(B)(5)
(B)(7)(e)

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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(B)(4)
(B)(5)

Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, January 09, 2009 1:10 PM
To: 'Brown, Charles R.'; 'Bracher, Chad'
Cc: Lougee, Jack R., TRD; Ernest, Mike
Subject: Manzanares Data Request 6

Charlie,

Here is the data request (B)(4)
(B)(5)
(B)(7)(e)

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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(B)(4)
(B)(5)

Barton, Jayne

From: maberry, maryann, TRD
Sent: Monday, June 25, 2007 2:12 PM
To: Lougee, Jack R., TRD; Martinez, Lena M., TRD
Subject: FW: Manzanares System Proprietary Information

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, June 25, 2007 6:54 AM
To: maberry, maryann, TRD
Subject: FW: Manzanares System

Does this help?

From: Price, John L.
Sent: Monday, June 25, 2007 7:53 AM
To: Ernest, Mike
Subject: RE: Manzanares System

(B)(5)

(B)(4)

From: Ernest, Mike (B)(5)
Sent: Monday, June 25, 2007 6:42 AM
To: Price, John L.
Subject: FW: Manzanares System

John

(B)(5)

Mike Ernest
FEDCAM

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Friday, June 22, 2007 3:59 PM
To: Ernest, Mike
Subject: RE: Manzanares System

The week of July 16th would work the best for Jack, Lena & myself.

(B)(4) Jack would like you to get input from John Pri(B)(5) this. Please let me know what he thinks.

Thanks,

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, June 18, 2007 8:43 AM
To: maberry, maryann, TRD
Subject: RE: Manzanares System

Maryann

I'm waiting to hear on other MMS people for the Manzanares trip. I'm thinking Linda from Dallas as she works with the Jicarilla. I'll contact her.

The week of July 16th could work. There is CPT training here in Lakewood but I could arrange for some one to fill in for me.
The week of July 23rd could work if the trip was early in the week. I have a family wedding later in that week, July 26 & 27th, so I won't be available those days.
The week of July 30th is fine for me.

(B)(4)
(B)(5)

Thanks

Mike E.

From: maberry, maryann, TRD [mailto:maryann.maberry(B)(4)@state.nm.us]
Sent: Friday, June 15, 2007 2:55 PM (B)(5)
To: jack.lougee@state.nm.us
Cc: Martinez, Lena M; Ernest, Mike
Subject: Manzanares System

I talked with Charlie Brown from Williams. He thinks a good time to schedule the tour of the Manzanares System will be the end of July, sometime after the 16th. Let me know if this fits into your schedule.

Mike, let me know how many people from MMS would like to attend.

Thanks,

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Friday, July 13, 2007 2:09 PM
To: Ernest, Mike; Lougee, Jack R., TRD; Martinez, Lena M., TRD
Subject: FW: Manzanares Visit
Attachments: fca map.xls; Directions to Williams Bloomfield Office.mht

Attached are the maps to the Williams office where we plan to meet between 1:00pm and 1:30pm on Monday, July 16, 2007.

Maryann M
827-9818

From: Brown, Charles R. [mailto:Charlie.Brown@Williams.com]
Sent: Friday, July 13, 2007 11:22 AM
To: maberry, maryann, TRD
Subject: RE: Manzanares Visit

Attached are a couple of maps. Call me if you have any questions.

I plan to be at the meetings. I look forward to meeting you and your co-workers.

Is anyone from BLM coming?

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Wednesday, July 11, 2007 5:47 PM
To: Brown, Charles R.
Cc: Ernest, Mike; jack.lougee@state.nm.us; lena.martinez@state.nm.us; Miller, Morris (E&P)
Subject: Manzanares Visit

Attached is a copy of the agenda for the Manzanares visit for July 16th and 17th. We plan to be there around 1:00pm to 1:30pm on Monday. We can then discuss the agenda and what we hope to accomplish with the tour on Tuesday.

We have reservations at the Best Western in Bloomfield, 415 S Bloomfield Blvd, 505-632-9100.

Please email directions to your office.

Thank you,

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Thursday, May 10, 2007 8:11 AM
To: Lougee, Jack R., TRD
Cc: Martinez, Lena M., TRD
Subject: letter for Manzanares information
Attachments: Data Request Manzarares.doc

Attached is a draft of the letter to Mid-stream for information regarding the Manzanares system. (B)(5)
i (B)(5) Also, does a copy need to go to John Price or Mary Williams? (B)(7)(e)
(B)(7)(e)

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Wednesday, November 12, 2008 2:55 PM
To: Lougee, Jack R., TRD
Subject: Manzanares Cost- Revised 11-10-08
Attachments: 9-30-2008 Manzanares System Costs.xls

Jack,

I rechecked the Manzanares spreadsheet we worked on Monday. It was incorrect. I found that I forgot to move the Pipeline ROI total into the spreadsheet. I need to change the calculation at the footer.

The percentage changed to [redacted] allowed
(B)(4)

Julia Maddux **(B)(5)**
Federal Royalty Auditor
Taxation & Revenue Department **(B)(7)(e)**
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Friday, June 15, 2007 2:55 PM
To: Lougee, Jack R., TRD
Cc: Martinez, Lena M., TRD; Ernest, Mike
Subject: Manzanares System

I talked with Charlie Brown from Williams. He thinks a good time to schedule the tour of the Manzanares System will be the end of July, sometime after the 16th. Let me know if this fits into your schedule.

Mike, let me know how many people from MMS would like to attend.

Thanks,

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, February 06, 2009 11:18 AM
To: 'Bracher, Chad'
Cc: Lougee, Jack R., TRD
Subject: Manzanares update

Chad,

I reviewed the information you sent on the update for Manzanares O & M.

The typical monthly expenses remain the same, so I will use that for the yrs. 2002 through 2007. The information is the same as the previous Exhibt D you gave me earlier.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Thursday, November 13, 2008 2:03 PM
To: 'Charlie.Brown@Williams.com'; 'Bracher, Chad'
Cc: Lougee, Jack R., TRD
Subject: Manzanares- Revised Cost work sheet adjusted for fuel
Attachments: 11-10-2008 Manzanares System Costs.xls

Charlie & Chad,

I have revised the spread sheet to remove the fuel (B)(5) (B)(7)(e) (B)(5) (B)(7)(e)

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, July 17, 2009 10:31 AM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: Manzanares revised percentages July 2009
Importance: High
Attachments: Manzanares percentages.xls

Mike,

I have adjusted the work papers on Manzanares to reflect changes in ROI. The ROI for any new equipment is the month in which it was acquired, otherwise the ROI used was the ROI as of January of that year, then readjusted at the beginning of each year.

The percentages did not change for the following years:
2003
2004
2007

2005 and 2006 had slight changes.
For 2005 the effective date for new rate of (B)(4) so I used the (B)(7)(e) (B)(4) (B)(5), then used the (B)(5) (B)(7)(e)

Let me know if you have any questions, I will send you the revised spreadsheets.

Thanks

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD

Sent: Friday, May 22, 2009 11:38 AM

To: Lougee, Jack R., TRD; Martinez, Gilbert P., TRD; Rodriguez, Nancy, TRD

Subject: Manzanares System allowed/disallowed percentages

Jack,

The table for the Manzanares System allowed/disallowed percentages is located in the common drive

- Audit Aides, Federal
  - Information Folder, then
    - Manzanares System Allowed/disallowed percentages folder

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Thursday, February 26, 2009 3:27 PM
To: Lougee, Jack R., TRD
Subject: Manzanares System Costs 2005-2007
Attachments: Manzanares System Cost Allowed-Disallowed percentages By Year.xls

Jack,

This is what I have so far on the Manzanares project. I still need to do 2002 through 2004

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Friday, August 24, 2007 4:01 PM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD; Maddux, Julia, TRD
Subject: Manzanares System
Attachments: E - Manzanares System.doc

For your comments before I send this to the Williams people.

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Thursday, May 03, 2007 8:34 AM
To: Lougee, Jack R., TRD
Cc: Morris, James; maberry, maryann, TRD
Subject: RE: Accesing Information on Williams Manzanaras system

Jack

I'll talk to John Price and sit in on the call.

Do you have the break out of cost % for Williams for the 2005 period? I could use those and I never received a copy. Could you send me a copy?

Mike

303-231-3747

From: Lougee, Jack R., TRD [mailto:jack.lougee@state.nm.us]
Sent: Thursday, May 03, 2007 7:13 AM
To: Price, John L.; Ernest, Mike; Morris, James
Cc: Maberry, Maryann; Martinez, Lena M
Subject: Accesing Information on Williams Manzanaras system

The New Mexico people will call John Price's phone at 11:00 am on Tuesday to discuss strategy to get information to determine costs on the Manzanaras system

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Barton, Jayne

From: Miller, Morris (E&P) [Morris.Miller@Williams.com]
Sent: Thursday, April 05, 2007 7:31 AM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD; Ernest, Mike; Fullmer, Landy (E&P); Suter-Levin, Donnie (E&P); McCoy, Tim
Subject: RE: Field Visit -- Manzanares GGS April 12 -- Second Notice -- Reply Requested
Importance: High

No one from MMS has responded to my last email. Please let me know that you got this email last Monday. We want to confirm each of you know that tour at Bloomfield on April 12 has been postponed.

Here's the email I sent April 2.

Maryann/Jack

We are still reviewing the items you requested on March 29th a feel that we need more time to coordinate our response. This will require consultation with our management, legal department and our midstream affiliate.

Therefore we have canceled your visit to Manzanares and Milagro that was scheduled for April 12 and will advise when we think it is appropriate to reschedule.

We request a conference call the later part of this month or in May to discuss your request.

Thanks

Morris
Office: 918-573-1158
Facsimilie: 918-573-5630

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, March 29, 2007 12:24 PM
To: Miller, Morris (E&P)
Cc: jack.lougee@state.nm.us; lena.martinez@state.nm.us; Ernest, Mike
Subject: RE: Field Visit -- Manzanares GGS April 12

Attached is a draft of the agenda for the field visit to the Manzanares System on April 12, 2007.

Maryann M
827-9818

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, March 23, 2007 3:07 PM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Suter-Levin, Donnie (E&P)
Subject: Field Visit -- Manzanares GGS April 12

Hi Maryann

Another request...

1. Please send us a list of names from MMS (or State) who will participate in this tour. Please include titles and reason for participating.
2. Please provide me with a list of questions you plan to ask. I realize many questions will arise during the tour but it would help if we had a sample of your questions. We want to make sure we have the right people (technical experts) on our side that will be able to answer your questions.

(B)(4)

I think you'll find the scope of the Manzanares system to be huge! I saw part of it this week – they had an empty seat on the company plane and let me tag along! If you've never been to Bloomfield you will be impressed – I think (B)(4) low though Milagro and that is a fraction of the gas going through the Bloomfield hubs!

I'm looking forward to a second (and third tour).

Also, the Best Western at Bloomfield is a nice hotel with a full breakfast – scrambled eggs, sausage (link or patty), bacon, biscuits, gravy, (all the essentials) plus the usual continental type foods. My room cost $85.00 including tax and is five minutes from our Bloomfield office.

Thanks in advance for the information.

Morris Miller CPA
Supervisor, Federal Royalties (MMS) Reporting
Office: 918-573-1158
Facsimilie: 918-573-5630
Email: morris.miller@williams.com

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, January 23, 2009 1:25 PM
To: Lougee, Jack R., TRD
Subject: Manzanares write up
Attachments: PSSC - Manzanares System-2.doc

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Williams, Mary [Mary.Williams@mms.gov]
Sent: Tuesday, April 24, 2007 8:07 AM
To: Ernest, Mike; maberry, maryann, TRD; Lougee, Jack R., TRD
Subject: RE: Field Visit -- Williams

It was not Valdean only Morris and his boss. You can hold the meeting next week without me - but I do want to visit with Jack and Maryann

---

From: Ernest, Mike
Sent: Tuesday, April 24, 2007 7:17 AM
To: Maberry, Maryann; jack.lougee@state.nm.us
Cc: Williams, Mary
Subject: RE: Field Visit -- Williams

Maryann and Jack,

Mary Williams mentioned should would like to speak with you and Jack before having a teleconference with Morris Miller of Williams. Seems she was at a meeting last week with Morris and Valdeen where the subject of the Manzanares trip came up. As a result, I believe Mary will have some information to share with us that will be as valuable as the information we share with her. Our options are dwindling but as it stands right now Mary and I will be speaking with Morris on Thursday at 8:30 AM MDT. Also, a teleconference with Mary W., Jack, you and I at 8:00 AM MDT Thursday sounds good.

I understand the rigid standards of CPE training for auditors so I don't see any flex in your training schedule. I can call you Friday or Monday to brief you on the conversation with Morris. Plus we can arrange another teleconference with Morris at a later date.

All my best

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Monday, April 23, 2007 4:12 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

We can talk 8:00 to 8:30 Wednesday, Thursday and Friday. Our classes start at 8:30 so we will be unavailable till 4:30pm each day.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, April 23, 2007 2:32 PM
To: maberry, maryann, TRD; Lougee, Jack R., TRD
Cc: Williams, Mary
Subject: FW: Field Visit -- Williams

FYI - I realize tomorrow won't work for you. I'll see if Mary and I can talk with you and Jack Thursday 8:00 AM and have the Williams people join us at 8:30 AM. How does that sound?

Mike

From: Williams, Mary
Sent: Monday, April 23, 2007 3:23 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Wednesday does not work as I have the RPC subcommittee at 9 and will be busy preparing. Tomorrow at 8 or Thursday work.

From: Ernest, Mike
Sent: Monday, April 23, 2007 2:50 PM
To: Williams, Mary
Subject: FW: Field Visit -- Williams

Mary

I'm working with Jack L. and Maryann M from the State of New Mexico on a telephone call to discuss the Williams Manzanares project. Does 8 AM or 8:30 AM work for you on Wednesday?

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Monday, April 23, 2007 11:30 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is no longer free at 8:00 am tomorrow. When he gets out of his meeting I will see if another time will work. Would 8:00am on Wednesday work for you?

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, April 23, 2007 9:02 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

How about the time listed below. 3:30 PM today doesn't work.

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Friday, April 20, 2007 8:15 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is free Tuesday morning at 8:00 am.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 2:08 PM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

I'm sorry. You sent me the agenda weeks ago. I just didn't think about it causing concern at Williams.

Are there bad times next week for you, Jack L., and others who may want to be in on a teleconference with Williams?

Let me know

Mike E.

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, April 19, 2007 1:38 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Attached is a copy of the Manzanares Agenda. It is very similar to the agenda for Chaco. Let me know about the teleconference.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 11:12 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

Can I get a copy of the questions/subjects you presented to Morris Miller at Williams concerning our proposed site visit to the Manzanares plant? I thought I could review it with Mary Williams and get a teleconference setup in the near future with Morris and the folks in your office. Looks like we may have a few more folks from the Denver MMS office that want to make the trip.

Thanks

Mike

303-231-3747

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Monday, April 02, 2007 6:40 AM

To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD; Ernest, Mike; Fullmer, Landy (E&P); Suter-Levin, Donnie (E&P); McCoy, Tim
Subject: RE: Field Visit -- Manzanares GGS April 12

Maryann/Jack

We are still reviewing the items you requested on March 29th a feel that we need more time to coordinate our response. This will require consultation with our management, legal department and our midstream affiliate.

Therefore we have canceled your visit to Manzanares and Milagro that was scheduled for April 12 and will advise when we think it is appropriate to reschedule.

We request a conference call the later part of this month or in May to discuss your request.

Thanks

Morris
Office: 918-573-1158
Facsimilie: 918-573-5630

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, March 29, 2007 12:24 PM
To: Miller, Morris (E&P)
Cc: jack.lougee@state.nm.us; lena.martinez@state.nm.us; Ernest, Mike
Subject: RE: Field Visit -- Manzanares GGS April 12

Attached is a draft of the agenda for the field visit to the Manzanares System on April 12, 2007.

Maryann M
827-9818 **(B)(4)**

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, March 23, 2007 3:07 PM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Suter-Levin, Donnie (E&P)
Subject: Field Visit -- Manzanares GGS April 12

Hi Maryann

Another request...

1. Please send us a list of names from MMS (or State) who will participate in this tour. Please include titles and reason for participating.
2. Please provide me with a list of questions you plan to ask. I realize many questions will arise during the tour but it would help if we had a sample of your questions. We want to make sure we have the right people (technical experts) on our side that will be able to answer your questions.

(B)(4)

(B)(4)

I think you'll find the scope of the Manzanares system to be huge! I saw part of it this week – they had an empty seat on the company plane and let me tag along! If you've never been to Bloomfield you will be impressed – I think (B)(4) flow though Milagro and that is a fraction of the gas going through the Bloomfield hubs!

I'm looking forward to a second (and third tour).

Also, the Best Western at Bloomfield is a nice hotel with a full breakfast – scrambled eggs, sausage (link or patty), bacon, biscuits, gravy, (all the essentials) plus the usual continental type foods. My room cost $85.00 including tax and is five minutes from our Bloomfield office.

Thanks in advance for the information.

Morris Miller CPA
Supervisor, Federal Royalties (MMS) Reporting
Office: 918-573-1158
Facsimilie: 918-573-5630
Email: morris.miller@williams.com

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Barton, Jayne

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Monday, November 19, 2007 10:08 AM
To: Maddux, Julia, TRD
Cc: Lougee, Jack R., TRD
Subject: RE: Manazanares diagram to include with 2nd request for information

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, November 19, 2007 9:02 AM
To: Ernest, Mike
Subject: Manazanares diagram to include with 2nd request for information
Importance: High

Manzanares diagram

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Tuesday, April 28, 2009 3:21 PM
To: Lougee, Jack R., TRD
Subject: RE: Manz Unbundling

Jack

I like the PC 39 idea.

The Thursday meeting is when we'll get the draft letter completed. I'll get a copy to you. Right now there are two versions; one version is mine and the second is Sarah's. Guess which one be the base of the draft coming out of Thursday's meeting? Mary scheduled it for 30 minutes so I don't see a big rewrite.

Mike

From: Lougee, Jack R., TRD [mailto:jack.lougee@state.nm.us]
Sent: Tuesday, April 28, 2009 3:17 PM
To: Ernest, Mike
Cc: Maddux, Julia
Subject: Manz Unbundling

Mike,

(B)(7)(e) (B)(5)

Jack

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Barton, Jayne

From: Williams, Mary [Mary.Williams@mms.gov]
Sent: Monday, April 23, 2007 8:25 PM
To: Ernest, Mike; maberry, maryann, TRD; Lougee, Jack R., TRD
Subject: Re: Field Visit -- Williams

That will work for me

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Ernest, Mike
To: Maberry, Maryann; jack.lougee@state.nm.us <jack.lougee@state.nm.us>
Cc: Williams, Mary
Sent: Mon Apr 23 15:32:01 2007
Subject: FW: Field Visit -- Williams

FYI - I realize tomorrow won't work for you. I'll see if Mary and I can talk with you and Jack Thursday 8:00 AM and have the Williams people join us at 8:30 AM. How does that sound?

Mike

From: Williams, Mary
Sent: Monday, April 23, 2007 3:23 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Wednesday does not work as I have the RPC subcommittee at 9 and will be busy preparing. Tomorrow at 8 or Thursday work.

From: Ernest, Mike
Sent: Monday, April 23, 2007 2:50 PM
To: Williams, Mary
Subject: FW: Field Visit -- Williams

Mary

I'm working with Jack L. and Maryann M from the State of New Mexico on a telephone call to discuss the Williams Manzanares project. Does 8 AM or 8:30 AM work for you on Wednesday?

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Monday, April 23, 2007 11:30 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is no longer free at 8:00 am tomorrow. When he gets out of his meeting I will see if another time will work. Would 8:00am on Wednesday work for you?

Maryann M

827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, April 23, 2007 9:02 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

How about the time listed below. 3:30 PM today doesn't work.

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Friday, April 20, 2007 8:15 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is free Tuesday morning at 8:00 am.

Maryann M

827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 2:08 PM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

I'm sorry. You sent me the agenda weeks ago. I just didn't think about it causing concern at Williams.

Are there bad times next week for you, Jack L., and others who may want to be in on a teleconference with Williams?

Let me know

Mike E.

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, April 19, 2007 1:38 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Attached is a copy of the Manzanares Agenda. It is very similar to the agenda for Chaco. Let me know about the teleconference.

Maryann M

827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 11:12 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

Can I get a copy of the questions/subjects you presented to Morris Miller at Williams concerning our proposed site visit to the Manzanares plant? I thought I could review it with Mary Williams and get a teleconference setup in the near future with Morris and the folks in your office. Looks like we may have a few more folks from the Denver MMS office that want to make the trip.

Thanks

Mike

303-231-3747

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Monday, April 02, 2007 6:40 AM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD; Ernest, Mike; Fullmer, Landy (E&P); Suter-Levin, Donnie (E&P); McCoy, Tim
Subject: RE: Field Visit -- Manzanares GGS April 12

Maryann/Jack

We are still reviewing the items you requested on March 29th a feel that we need more time to coordinate our response. This will require consultation with our management, legal department and our midstream affiliate.

Therefore we have canceled your visit to Manzanares and Milagro that was scheduled for April 12 and will advise when we think it is appropriate to reschedule.

We request a conference call the later part of this month or in May to discuss your request.

Thanks

Morris

Office: 918-573-1158

Facsimilie: 918-573-5630

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, March 29, 2007 12:24 PM
To: Miller, Morris (E&P)
Cc: jack.lougee@state.nm.us; lena.martinez@state.nm.us; Ernest, Mike
Subject: RE: Field Visit -- Manzanares GGS April 12

Attached is a draft of the agenda for the field visit to the Manzanares System on April 12, 2007.

Maryann M

827-9818

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, March 23, 2007 3:07 PM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Suter-Levin, Donnie (E&P)
Subject: Field Visit -- Manzanares GGS April 12

Hi Maryann

Another request…

1. Please send us a list of names from MMS (or State) who will participate in this tour. Please include titles and reason for participating.
2. Please provide me with a list of questions you plan to ask. I realize many questions will arise during the tour but it would help if we had a sample of your questions. We want to make sure we have the right people (technical experts) on our side that will be able to answer your questions.

(B)(4)

(B)(4)

I think you'll find the scope of the Manzanares system to be huge! I saw part of it this week – they had an empty seat on the company plane and let me tag along! If you've never been to Bloomfield you will be impressed – I think [redacted] low though Milagro and that is a fraction of the gas going through the Bloomfield hubs!

I'm looking forward to a second (and third tour).

Also, the Best Western at Bloomfield is a nice hotel with a full breakfast – scrambled eggs, sausage (link or patty), bacon, biscuits, gravy, (all the essentials) plus the usual continental type foods. My room cost $85.00 including tax and is five minutes from our Bloomfield office.

Thanks in advance for the information.

Morris Miller CPA

Supervisor, Federal Royalties (MMS) Reporting

Office: 918-573-1158

Facsimilie: 918-573-5630

Email: morris.miller@williams.com

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Barton, Jayne

From: Williams, Mary [Mary.Williams@mms.gov]
Sent: Monday, June 15, 2009 11:09 AM
To: Lougee, Jack R., TRD; Ernest, Mike
Cc: Maddux, Julia, TRD; Severson, Valdean H., TRD
Subject: RE: Manzanaras Dear Payor letter.

(B)(4)
(B)(5) (B)(7)(e)

From: Lougee, Jack R., TRD [mailto:jack.lougee@state.nm.us]
Sent: Monday, June 15, 2009 9:29 AM
To: Ernest, Mike; Williams, Mary
Cc: Maddux, Julia; Severson, Valdean
Subject: Manzanaras Dear Payor letter.

Has it gone out?

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Barton, Jayne

From: Bracher, Chad [Chad.Bracher@Williams.com]
Sent: Monday, September 15, 2008 10:24 AM
To: Maddux, Julia, TRD
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: RE: Manzanares Data Request 5

Julia: I've completed the request and am having the information sent to you via FedEx today, so you should receive it at your office tomorrow. Please let me know if I can answer any questions – thank you.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138
918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, September 08, 2008 3:19 PM
To: Brown, Charles R.; Bracher, Chad
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: Manzanares Data Request 5

Re: Williams Financial Data and Typical Equipment Expenses worksheet 2006

Charlie,

(B)(4)

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Williams, Mary [Mary.Williams@mms.gov]
Sent: Tuesday, April 28, 2009 9:37 AM
To: Lougee, Jack R., TRD
Cc: Ernest, Mike; Maddux, Julia, TRD
Subject: Re: Manzanares Unbundling

Thanks Jack we will let you know - primarily want to discuss the letter and get that finalized
---
Sent from my BlackBerry Wireless Handheld

From: Lougee, Jack R., TRD <jack.lougee@state.nm.us>
To: Williams, Mary
Cc: Ernest, Mike; Maddux, Julia
Sent: Tue Apr 28 08:47:25 2009
Subject: Manzanares Unbundling

Mary,

Mike told us you were to have a meeting on Julia's Manz unbundling Thursday at 2:00 pm. If it would help, Julia and I would be happy to participate to answer any questions. Just let us know.

Jack

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Barton, Jayne

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Tuesday, May 05, 2009 2:22 PM
To: Lougee, Jack R., TRD
Subject: RE: Manzanares Unbundling

Jack

Do you have the full copies of the Gas Gathering and Treating and ....., etc. contracts. Sort of tough to present a contract that starts on page 14. Much appreciated. Let me know if the scan size gets too big but Julia and I have exchanged 10 megabyte files recently.

You sent parts of WFS & Energen, Phillips, and Burlington.

I'm a landman at heart, so contracts make me happy,

Mike

From: Lougee, Jack R., TRD [mailto:jack.lougee@state.nm.us]
Sent: Tuesday, April 28, 2009 8:47 AM
To: Williams, Mary
Cc: Ernest, Mike; Maddux, Julia
Subject: Manzanares Unbundling

Mary,

Mike told us you were to have a meeting on Julia's Manz unbundling Thursday at 2:00 pm. If it would help, Julia and I would be happy to participate to answer any questions. Just let us know.

Jack

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Barton, Jayne

From: Severson, Valdean H., TRD
Sent: Thursday, September 11, 2008 1:21 PM
To: Lougee, Jack R., TRD
Subject: RE: Manzanares System - Draft system costs

okay

From: Lougee, Jack R., TRD
Sent: Thursday, September 11, 2008 12:41 PM
To: Severson, Valdean H., TRD
Subject: RE: Manzanares System - Draft system costs

I'd like to go over the status of this, Chaco Blanco. El Paso Order and User group.

From: Severson, Valdean H., TRD
Sent: Thursday, September 11, 2008 8:53 AM
To: Lougee, Jack R., TRD
Subject: RE: Manzanares System - Draft system costs

I will be in Alb. on Friday morning and will visit you and your staff.

Valdean

From: Lougee, Jack R., TRD
Sent: Thursday, September 11, 2008 8:07 AM
To: Severson, Valdean H., TRD
Subject: FW: Manzanares System - Draft system costs

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Wednesday, September 10, 2008 2:00 PM
To: Maddux, Julia, TRD
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: RE: Manzanares System - Draft system costs

Great job on this Julia and Jack - the time you have spent on will help us in many areas. Thanks.

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Wednesday, September 10, 2008 1:21 PM
To: Williams, Mary
Cc: Ernest, Mike
Subject: Manzanares System - Draft system costs

Mary,

This is our preliminary draft of the Manzanares System that Jack went over with you earlier today. We expect

changes to the costs when I receive a response from Williams for typical monthly equipment costs for compressors & dehydrator sizes other than previously provided by them. I expect to receive the information September 15th.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Monday, November 03, 2008 11:05 AM
To: Lougee, Jack R., TRD
Subject: RE: Manzanares System

Chad,

This is the most current version.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Lougee, Jack R., TRD
Sent: Monday, November 03, 2008 11:42 AM
To: Maddux, Julia, TRD
Subject: FW: Manzanares System

From: Bracher, Chad [mailto:Chad.Bracher@Williams.com]
Sent: Monday, November 03, 2008 10:36 AM
To: Lougee, Jack R., TRD; Brew, Christopher T., TRD
Subject: FW: Manzanares System

Jack & Chris: We received this draft version from you a few weeks ago, and wanted to see if there was an updated version. Charlie and I would like to schedule some time with you to discuss the results of your audit more specifically. I know we spoke a few weeks ago about this, but I think we talked in more general terms. So we wanted to be able to offer you some comments specific to these documents and how you plan to implement them.

If an updated version exists, would you mind copying me? Then we can schedule a date next week to discuss. Thank you.

I also wanted to share with you that we are making good progress on compiling the data related to our other gathering systems.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138

918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Wednesday, October 01, 2008 12:39 PM
To: Brown, Charles R.
Cc: Lougee, Jack R., TRD
Subject: Manzanares System

Charlie,

This is draft of the work paper prepared based on the information we received from Williams. We look forward to your input.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Martinez, Gilbert P., TRD
Sent: Wednesday, November 04, 2009 12:54 PM
To: Severson, Valdean H., TRD
Cc: Rodriguez, Nancy, TRD; Lougee, Jack R., TRD; Davis, Kathy
Subject: RE: Manzanares system
Attachments: Property to plant (2).xls

I think we have such a beast.

From: Severson, Valdean H., TRD
Sent: Wednesday, November 04, 2009 11:39 AM
To: Rodriguez, Nancy, TRD; 'Kathy.Davis2@mms.gov'
Cc: Martinez, Gilbert P., TRD; Lougee, Jack R., TRD; Milano, Patrick
Subject: RE: Manzanares system

(B)(5)

From: Rodriguez, Nancy, TRD
Sent: Wednesday, November 04, 2009 11:13 AM
To: Kathy.Davis2@mms.gov
Cc: Severson, Valdean H., TRD; Martinez, Gilbert P., TRD; Lougee, Jack R., TRD
Subject: Manzanares system
Importance: High

Kathy,

Would you possibly be able to provide New Mexico with a list of Federal properties and the associated payors that have production flowing through the Manzanares system?

Nancy Rodriguez

205 Federal Royalty Audit Supervisor

New Mexico Taxation and Revenue Department

Phone (505) 827-9843

Fax (505) 827-9888

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Thursday, May 10, 2007 9:26 AM
To: Lougee, Jack R., TRD
Cc: Martinez, Lena M., TRD
Subject: Updated Manzanares data request
Attachments: Data Request Manzarares.doc

Attached is the updated draft of the data request.

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Monday, May 12, 2008 10:16 AM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: RE: Manzanares update

Jack & I will call you this afternoon about 2:00 will you be available at that time?

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, May 12, 2008 10:02 AM
To: Maddux, Julia, TRD
Subject: RE: Manzanares update

Julia

Rod Schumacher is traveling today (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e)

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, May 12, 2008 9:13 AM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: RE: Manzanares update

Mike,

Yes, we received the package from Rod, I have not had a chance to look it over.

I did not talk with Charlie, when I called to find out the status of the data request I left a message and then missed his return call. He left me the message about asking for a time extension.

We have not changed the procedure for joint teleconferences, it is beneficial for us to have the conferences together that way we both receive information first hand.

I don't have questions for Geary at this time, when will you be submitting your questions?

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, May 12, 2008 8:43 AM
To: Maddux, Julia, TRD
Cc: Morris, James; Lougee, Jack R., TRD
Subject: RE: Manzanares update

Julia

Did you get the data package from Rod Schumacher for Enterprise? If so, did you have a chance to look at it?

I preparing some questions to ask him and I would like to include your input. Let me know.

How was the conversation with Charlie Brown at Williams? I'm a little puzzled why we have changed our procedure to have joint teleconferences with Williams and Enterprise.

I have a list of things to speak with Geary Keaton. Care to add anything to my list?

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Friday, May 09, 2008 3:05 PM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: Re: Manzanares update

Mike,

Charlie says he and Chad are working on the request. The information is taking them a lot longer to gather than expected. They will not be able to get it to us by the end of the month. He will call us and email next week to request an extension.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Tuesday, April 24, 2007 8:16 AM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD
Subject: RE: teleconference Williams

Per Mary Williams e-mail, we will have a teleconference Thursday at 8:00am between MMS and New Mexico. We will need a telephone number to call into.

For the teleconference with Williams next week, I will be out on Monday, and Jack will be in training on Wednesday and Thursday. Let us know when next week will be good with Williams to discuss the Manzanares visit.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Tuesday, April 24, 2007 6:17 AM
To: maberry, maryann, TRD; Lougee, Jack R., TRD
Cc: Williams, Mary
Subject: RE: Field Visit -- Williams

Maryann and Jack,

Mary Williams mentioned should would like to speak with you and Jack before having a teleconference with Morris Miller of Williams. Seems she was at a meeting last week with Morris and Valdeen where the subject of the Manzanares trip came up. As a result, I believe Mary will have some information to share with us that will be as valuable as the information we share with her. Our options are dwindling but as it stands right now Mary and I will be speaking with Morris on Thursday at 8:30 AM MDT. Also, a teleconference with Mary W., Jack, you and I at 8:00 AM MDT Thursday sounds good.

I understand the rigid standards of CPE training for auditors so I don't see any flex in your training schedule. I can call you Friday or Monday to brief you on the conversation with Morris. Plus we can arrange another teleconference with Morris at a later date.

All my best

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Monday, April 23, 2007 4:12 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

We can talk 8:00 to 8:30 Wednesday, Thursday and Friday. Our classes start at 8:30 so we will be unavailable till 4:30pm each day.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]

Sent: Monday, April 23, 2007 2:32 PM
To: maberry, maryann, TRD; Lougee, Jack R., TRD
Cc: Williams, Mary
Subject: FW: Field Visit -- Williams

FYI - I realize tomorrow won't work for you. I'll see if Mary and I can talk with you and Jack Thursday 8:00 AM and have the Williams people join us at 8:30 AM. How does that sound?

Mike

From: Williams, Mary
Sent: Monday, April 23, 2007 3:23 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Wednesday does not work as I have the RPC subcommittee at 9 and will be busy preparing. Tomorrow at 8 or Thursday work.

From: Ernest, Mike
Sent: Monday, April 23, 2007 2:50 PM
To: Williams, Mary
Subject: FW: Field Visit -- Williams

Mary

I'm working with Jack L. and Maryann M from the State of New Mexico on a telephone call to discuss the Williams Manzanares project. Does 8 AM or 8:30 AM work for you on Wednesday?

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Monday, April 23, 2007 11:30 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is no longer free at 8:00 am tomorrow. When he gets out of his meeting I will see if another time will work. Would 8:00am on Wednesday work for you?

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, April 23, 2007 9:02 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

How about the time listed below. 3:30 PM today doesn't work.

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Friday, April 20, 2007 8:15 AM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Jack is free Tuesday morning at 8:00 am.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 2:08 PM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

I'm sorry. You sent me the agenda weeks ago. I just didn't think about it causing concern at Williams.

Are there bad times next week for you, Jack L., and others who may want to be in on a teleconference with Williams?

Let me know

Mike E.

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, April 19, 2007 1:38 PM
To: Ernest, Mike
Subject: RE: Field Visit -- Williams

Attached is a copy of the Manzanares Agenda. It is very similar to the agenda for Chaco. Let me know about the teleconference.

Maryann M
827-9818

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, April 19, 2007 11:12 AM
To: maberry, maryann, TRD
Subject: RE: Field Visit -- Williams

Maryann

Can I get a copy of the questions/subjects you presented to Morris Miller at Williams concerning our proposed site visit to the Manzanares plant? I thought I could review it with Mary Williams and get a teleconference setup in the near future with Morris and the folks in your office. Looks like we may have a few more folks from the Denver MMS office that want to make the trip.

Thanks

Mike

303-231-3747

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Monday, April 02, 2007 6:40 AM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD; Ernest, Mike; Fullmer, Landy (E&P); Suter-Levin, Donnie (E&P); McCoy, Tim
Subject: RE: Field Visit -- Manzanares GGS April 12

Maryann/Jack

We are still reviewing the items you requested on March 29th a feel that we need more time to coordinate our response. This will require consultation with our management, legal department and our midstream affiliate.

Therefore we have canceled your visit to Manzanares and Milagro that was scheduled for April 12 and will advise when we think it is appropriate to reschedule.

We request a conference call the later part of this month or in May to discuss your request.

Thanks

Morris
Office: 918-573-1158
Facsimilie: 918-573-5630

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, March 29, 2007 12:24 PM
To: Miller, Morris (E&P)
Cc: jack.lougee@state.nm.us; lena.martinez@state.nm.us; Ernest, Mike
Subject: RE: Field Visit -- Manzanares GGS April 12

Attached is a draft of the agenda for the field visit to the Manzanares System on April 12, 2007.

Maryann M
827-9818

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, March 23, 2007 3:07 PM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Suter-Levin, Donnie (E&P)
Subject: Field Visit -- Manzanares GGS April 12

Hi Maryann

Another request...

1. Please send us a list of names from MMS (or State) who will participate in this tour. Please include titles and reason for participating.
2. Please provide me with a list of questions you plan to ask. I realize many questions will arise during the tour but it would help if we had a sample of your questions. We want to make sure we have the right people (technical experts) on our side that will be able to answer your questions.

(B)(4)

I think you'll find the scope of the Manzanares system to be huge! I saw part of it this week – they had an empty seat on the company plane and let me tag along! If you've never been to Bloomfield you will be impressed – I think (B)(4) flow though Milagro and that is a fraction of the gas going through the Bloomfield hubs!

I'm looking forward to a second (and third tour).

Also, the Best Western at Bloomfield is a nice hotel with a full breakfast – scrambled eggs, sausage (link or patty), bacon, biscuits, gravy, (all the essentials) plus the usual continental type foods. My room cost $85.00 including tax and is five minutes from our Bloomfield office.

Thanks in advance for the information.

Morris Miller CPA
Supervisor, Federal Royalties (MMS) Reporting
Office: 918-573-1158
Facsimilie: 918-573-5630
Email: morris.miller@williams.com

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Barton, Jayne

From: Martinez, Lena M., TRD

Sent: Monday, April 30, 2007 9:42 AM

To: maberry, maryann, TRD; Lougee, Jack R., TRD

Subject: Teleconference with Williams on Manzanares visit 2:30 pm Tuesday

Approximate time of teleconference: 2:30 pm Mountain after 1:15 pm teleconference with Gilbert, Jack, Lena on the Williams Issue Leter

Barton, Jayne

From: Williams, Mary [Mary.Williams@mms.gov]
Sent: Tuesday, October 10, 2006 9:18 AM
To: Severson, Valdean H., TRD; Lougee, Jack R., TRD; Rodriguez, Nancy, TRD
Cc: Burhop, Shirley
Subject: Coalbed methane dear Payor letter

(B)(5)

Mary Williams
(303) 231-3403
(303) 231-3744 (fax)

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Monday, May 12, 2008 9:46 AM
To: Lougee, Jack R., TRD
Subject: FW: Manzanares update

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, May 12, 2008 9:44 AM
To: Maddux, Julia, TRD
Subject: RE: Manzanares update

Julia

My take on the Schumacher/Enterprise package is it too little, too late. I can't read their map with my Luxo magnifying drafting lamp. I'll ask Rod for a scale map from the file but I think I'm ready to go to Keaton.

I have the same take with Mr. Brown and Williams. I can't see what a time extension will produce.

Pardon my 'bull in the china shop' approach today. I'm getting a status report together for Mary and I'm on leave starting Wednesday. I'll let you know what my schedule is with Keaton after I speak with Mary later today.

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, May 12, 2008 9:13 AM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: RE: Manzanares update

Mike,

Yes, we received the package from Rod, I have not had a chance to look it over.

I did not talk with Charlie, when I called to find out the status of the data request I left a message and then missed his return call. He left me the message about asking for a time extension.

We have not changed the procedure for joint teleconferences, it is beneficial for us to have the conferences together that way we both receive information first hand.

I don't have questions for Geary at this time, when will you be submitting your questions?

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, May 12, 2008 8:43 AM
To: Maddux, Julia, TRD
Cc: Morris, James; Lougee, Jack R., TRD
Subject: RE: Manzanares update

Julia

Did you get the data package from Rod Schumacher for Enterprise? If so, did you have a chance to look at it?

I preparing some questions to ask him and I would like to include your input. Let me know.

(B)(4) (B)(5)

I have a list of things to speak with Geary Keaton. Care to add anything to my list?

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Friday, May 09, 2008 3:05 PM
To: Ernest, Mike
Cc: Lougee, Jack R., TRD
Subject: Re: Manzanares update

Mike,

Charlie says he and Chad are working on the request. The information is taking them a lot longer to gather than expected. They will not be able to get it to us by the end of the month. He will call us and email next week to request an extension.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Friday, July 13, 2007 2:09 PM
To: Ernest, Mike; Lougee, Jack R., TRD; Martinez, Lena M., TRD
Subject: FW: Manzanares Visit
Attachments: fca map.xls; Directions to Williams Bloomfield Office.mht

Attached are the maps to the Williams office where we plan to meet between 1:00pm and 1:30pm on Monday, July 16, 2007.

Maryann M
827-9818

From: Brown, Charles R. [mailto:Charlie.Brown@Williams.com]
Sent: Friday, July 13, 2007 11:22 AM
To: maberry, maryann, TRD
Subject: RE: Manzanares Visit

Attached are a couple of maps. Call me if you have any questions.

I plan to be at the meetings. I look forward to meeting you and your co-workers.

Is anyone from BLM coming?

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Wednesday, July 11, 2007 5:47 PM
To: Brown, Charles R.
Cc: Ernest, Mike; jack.lougee@state.nm.us; lena.martinez@state.nm.us; Miller, Morris (E&P)
Subject: Manzanares Visit

Attached is a copy of the agenda for the Manzanares visit for July 16th and 17th. We plan to be there around 1:00pm to 1:30pm on Monday. We can then discuss the agenda and what we hope to accomplish with the tour on Tuesday.

We have reservations at the Best Western in Bloomfield, 415 S Bloomfield Blvd, 505-632-9100.

Please email directions to your office.

Thank you,

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: maberry, maryann, TRD
Sent: Thursday, May 10, 2007 8:11 AM
To: Lougee, Jack R., TRD
Cc: Martinez, Lena M., TRD
Subject: letter for Manzanares information
Attachments: Data Request Manzarares.doc

Attached is a draft of the letter to Mid-stream for information regarding the Manzanares system. (B)(5) (B)(5) Also, does a copy need to go to John Price or Mary Williams?

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Wednesday, October 01, 2008 11:39 AM
To: 'Charlie.Brown@Williams.com'
Cc: Lougee, Jack R., TRD
Subject: Manzanares System
Attachments: 9-30-2008 Manzanares System Costs.xls; Manzanarares Spreadsheet Procedure.doc

Charlie,

This is draft of the work paper prepared based on the information we received from Williams. We look forward to your input.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Monday, September 08, 2008 2:22 PM
To: 'Charlie.Brown@Williams.com'; 'Bracher, Chad'
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: Manzanares Data Request #5
Attachments: 9-8-08 Manzanares data-request 5.doc

Oops –

Here's the Data Request

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Thursday, November 13, 2008 2:03 PM
To: 'Charlie.Brown@Williams.com'; 'Bracher, Chad'
Cc: Lougee, Jack R., TRD
Subject: Manzanares- Revised Cost work sheet adjusted for fuel
Attachments: 11-10-2008 Manzanares System Costs.xls

Charlie & Chad,

I have revised the spread sheet to remove th (B)(4) (B)(5) (B)(7)(e) .

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Maddux, Julia, TRD
Sent: Friday, January 23, 2009 1:25 PM
To: Lougee, Jack R., TRD
Subject: Manzanares write up
Attachments: PSSC - Manzanares System-2.doc

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Barton, Jayne

From: Bracher, Chad [Chad.Bracher@Williams.com]
Sent: Monday, September 15, 2008 10:24 AM
To: Maddux, Julia, TRD
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: RE: Manzanares Data Request 5

Julia: I've completed the request and am having the information sent to you via FedEx today, so you should receive it at your office tomorrow. Please let me know if I can answer any questions – thank you.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138
918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, September 08, 2008 3:19 PM
To: Brown, Charles R.; Bracher, Chad
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: Manzanares Data Request 5

Re: Williams Financial Data and Typical Equipment Expenses worksheet 2006

Charlie,

(B)(4)
(B)(5)

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
		NA	Dehy									0			
System Map	Trunk	Allowed (A) or Not Allowed (NA)	Comp/Dehy				Dep/ROI by unit & location wp	Company Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	typical exp (Year)	col(o) subtotal/col (o) Total
								$						$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
Equipment from Eq List		NA	Compressor	From Eq List	From Equip List	From Eq List	Calculated Cost	Flows from	Flows from ROI		Flows from	0			
or Depreciation Schedule		NA	Compressor				allocated per Unit	Company Asset	schedule		Typical Mo Exp	0			
		NA	Compressor				Info flows from calc	Schedule			wp col(j)	0			
		NA	Compressor				wp	per identified unit				0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Compressor									0			
		NA	Solar turbine									0			
Subtotal Compressors							**0.00**	**0.00**	**0.00**	**0.00**		**0**	**#DIV/0!**	**0**	**#DIV/0!**
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
		NA	Dehy									0			
Subtotal Dehydrators							**0.00**	**0.00**	**0.00**	**0.00**	**0**	**0**	**#DIV/0!**	**0**	**#DIV/0!**

Allowed Costs

			Pipeline												
			Pipeline												
			Pipeline												
			Pipeline												
			Pipeline												
			Pipeline												
			Pipeline												
Subtotal Pipeline & Allowed Booster Compressors							**0.00**	**0.00**	**0.00**	**0.00**	0	**0**	**#DIV/0!**	0	#DIV/0!
Grand Total							**0.00**	**0.00**	**0.00**	**0.00**	**0**	**0**	**#DIV/0!**	**0**	**#DIV/0!**

Allowed	***#DIV/0!***	***Allowed Fuel***	***#DIV/0!***
Disallowed	***#DIV/0!***	***Disallowed Fuel***	***#DIV/0!***

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative

Prepared by Julia Maddux Date: 1/5/2009
Reviewd by: _____ Date: ____
Workpaper: System Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
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SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
		NA	Dehy									0			
System Map	Trunk	Allowed (A) or Not Allowed (NA)	Comp/Dehy				Dep/ROI by unit & location wp	Company Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	typical exp (Year)	col(o) subtotal/col (o) Total
								$						$	

Where (TME) = Typical Monthly Expense
From Company Financial Data & Typical Expenses Sheet
All dehydrators are owned by company, there is no rental expense.
Operational and depreciation expense for rental equipment because site expenses exist for these units

Prepared by Julia Maddux Date: 1/5/2009
Reviewd by: _____ Date: ____
Workpaper: System Cost

Calculation Cross Check - Cost Sheets to Source

'Depreciation	
cost sheet pipe line source pipeline	(B)(4) (B)(7)(e)
Variance	
cost sheet compressors source compressors	
Variance	
cost sheet dehydrators source dehydrators	
Variance	
Total Depreciation cost sheet Source total Depreciaton	
Variance	

ROI	
cost sheet pipeline source pipeline	(B)(4) (B)(7)(e)
Variance	
cost sheet compressors- ROI source compressors ROI	
Variance	
cost sheet dehydrators ROI source dehydrators ROI	
Variance	
Total cost sheet ROI Source total Depreciaton RO	
Variance	

Prepared by: Julia Maddux Jack Lougee 1/8/2009

Calculation Cross Check Unbundling Percentage Sheet to Source

Depreciation						
Unbundled % calculation	Comp	Dehy	Pipeline	Total	Variance	Grand totals
Known				-		
'Uknown				-		-
Comp Adj				-		
				-		-
Source				-		-
	-	-	-	-	-	-
Comp Adj						
Ext Known						
' Unknown						
# Ext comp						
	-	-				
	-					
Wes Known						
Unknown						
	-					

Prepared by: Julia Maddux Jack Lougee 1/8/2009

Calculation Cross Check Unbundling Percentage Sheet to Source

ROI					
Unbundled % calculation	Comp	Dehy	Pipeline	Total	Grand Totals
Known					
'Uknown					
Comp Adj					
	-	-	-	-	-
Source					-
	-	-	-	-	-
Comp Adj					
Ext Known					
Unknown					
	-	-			
# Ext comp					
	-	-			
	-				
Wes Known					
Unknown					
	-				

Prepared by: Julia Maddux Jack Lougee 1/8/2009

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

SYSTEM COSTS - 2006

MONTHLY EXPENSES

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Company System Map	Trunk	Allowed (A) or Not Allowed (NA)	System Compressors/Dehydrators				2006 Typical exp $	2006 Typical exp $	(h + i)*12
a	b	c	d	e					
		NA	Compressor						
		NA	Compressor						
		NA	Compressor						
		NA	Compressor						
		NA	Compressor						
Subtotal Compressors									
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
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		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
		NA	Dehy						
Subtotal Dehydrators									
		A	Pipeline						
		A	Pipeline						
		A	Pipeline						
		A	Pipeline						

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

SYSTEM COSTS - 2006

MONTHLY EXPENSES

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Company System Map	Trunk	Allowed (A) or Not Allowed (NA)	System Compressors/Dehydrators				2006 Typical exp $	2006 Typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
		A	Pipeline						
		A	Pipeline						
		A	Pipeline						
		A	Pipeline				(B)(4)		
		A	Pipeline				(B)(7)(e)		
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									
Total O & M and GA Expenses									
Pipeline) & M and GA Expenses									
							Pipeline Costs		0

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

SYSTEM COSTS - 2006

MONTHLY EXPENSES

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Company System Map	Trunk	Allowed (A) or Not Allowed (NA)	System Compressors/Dehydrators				2006 Typical exp $	2006 Typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Gathering										

2006 Typical Monthly Equipment O&M

Compression	Company Owned O&M*	Company Owned Fluid	Company Owned O/H Resv.	Company Owned Total	Total Yrly Exp
				(B)(4) (B)(7)(e)	

Rent	O&M	Fluid	Total	Total Yearly Exp
				(B)(4) (B)(7)(e)

Dehydration

O&M	O/H Resv.	Fluid	Total	Total Yrly Exp
			(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

SYSTEM COSTS - 2006

MONTHLY EXPENSES

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Company System Map	Trunk	Allowed (A) or Not Allowed (NA)	System Compressors/Dehydrators				2006 Typical exp $	2006 Typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

Company Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
System Gathering										

2006 Typical Monthly Equipment O&M

Compression	Company Owned O&M*	Company Owned Fluid	Company Owned O/H Resv.	Company Owned **Total**	Owned by Others Rent	Owned by Others O&M	Owned by Others Fluid	Owned by Others **Total**

(B)(4)
(B)(7)(e)

Dehydration	O&M	O/H Resv.	Fluid	**Total**

* O&M proxy

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a		
Compressors		
Depreciation		
ROI		
Units		
Depreciation		
ROI		
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Depreciation		
ROI		
Units		
Depreciation		
ROI		
Units		
Depreciation		
ROI		
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Depreciation		
ROI		
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Depreciation		
ROI		
Units		
Depreciation		
ROI		
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Depreciation		
ROI		
Units		
Depreciation		
ROI		
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Depreciation
ROI

Units
Depreciation
ROI

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units
Depreciation
ROI

Units
Depreciation
ROI

(B)(4)
(B)(7)(e)

Units
Depreciation
ROI

Units
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ROI

Units
Depreciation
ROI

Units
Depreciation
ROI

(B)(4)
(B)(7)(e)

Units
Depreciation
ROI

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units
Depreciation
ROI

Units
Depreciation
ROI

	Total	Others	Company
Units	1.00	0.00	1.00

Depreciation	0.00	0.00
ROI	0.00	0.00

	Total Compression Depreciation	Total Compressors
Total from Capital Costs wp	(B)(4)	
	(B)(7)(e)	Total Compressors

	Total Compression ROI
Total from Capital Costs wp	0.00 (B)(4) (B)(7)(e)

b= From Company Asset Schedule see Capital C

Location Description	In Service Date	(m + n) **Undepreciated Bal Beginning of Year**	(o * .0609)* 1.3 **BBB 2006 .0609 * 1.3**

System 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total Units	c Company
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units	(B)(4)	
Depreciation ROI	(B)(7)(e)	
Units		(B)(4)
Depreciation ROI		(B)(7)(e)
Units		
Depreciation ROI		
Units	(B)(4)	
Depreciation ROI	(B)(7)(e)	
Units		(B)(4)
Depreciation ROI		(B)(7)(e)
Units		
Depreciation ROI		
Units	(B)(4)	(B)(4)
Depreciation ROI	(B)(7)(e)	(B)(7)(e)

System 2006

DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	Company
Units		
Depreciation		
ROI		
Units		
Depreciation	(B)(4)	
ROI	(B)(7)(e)	
Units		
Depreciation		(B)(4)
ROI		(B)(7)(e)
Units		
Depreciation		
ROI		
	(B)(4)	
	(B)(7)(e)	
Units		
Depreciation		(B)(4)
ROI		(B)(7)(e)
Units		
Depreciation		
ROI		
	(B)(4)	
	(B)(7)(e)	
Units		
Depreciation		(B)(4)
ROI		(B)(7)(e)

System 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Total from Capital Costs wp	Total Dehydration Depreciation	Total Dehydrators	**Total Dehydrators**
Total from Capital Costs wp	Total Dehydration ROI	Total Dehydrators	
	(B)(4) (B)(7)(e)		**(B)(4) (B)(7)(e)**

b= From Company Asset Schedule see Capital Cost
All Dehydrators are owned by Company, there is not any rental

Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006 .0609 * 1.3

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Unknown Compressor Locations ROI

Total	**0**

Unknown locations provided by Company

Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life
			(B)(4) (B)(7)(e)	

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01/01/94	First	360	206

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Grand Total

Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost
0.00				0
				0
0.00				0
0.00				0
0.00

0.00	0
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0.00			0
		$ -	0

Unknown Compressor Locations from Compressor Depreciation Schedule

Total Unkown Depreciation	0

ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

Total Unkown ROI	0.00

Location Description	Yearly Costs

Grand Total	0.00

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

System Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost
#N/A Total						
Grand Total						

(B)(4)

(B)(7)(e)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 (B)(4)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006	(B)(4)
				(B)(4)	~~(B)(7)(e)~~

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	(B)(4)	(B)(4)
					(B)(7)(e)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	(B)(4)	(B)(4)
					(B)(7)(e)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	(B)(4)	(B)(4)
					(B)(7)(e)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 (B)(4)	(B)(4) ~~(B)(7)(c)~~

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	(B)(4)	(B)(4)
					(B)(7)(e)

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 (B)(4)	(B)(4) (B)(7)(e)
				0.00	0
	$ -	0	0.00	0.00	0.00

Unknown Dehydration Locations from Dehydration Depreciation Schedule

Total Unkown Depreciation	0

System Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation

Net Book Value	(k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year	(B)(4)	(B)(4) ~~(B)(7)~~(e)

$ -	0	$ -	0.00

Grand Total	**0.00**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Gas Daily
INSIDE FERC

El Paso Natural Gas - San Juan Basin 2006

	Monthly
Jan	8.70
Feb	6.69
Mar	6.10
Apr	5.57
May	5.69
Jun	4.76
Jul	5.08
Aug	5.97
Sep	5.78
Oct	3.43
Nov	6.39
Dec	6.45
Yearly avg price	**5.88**

Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Gathering	(B)(4) (B)(7)(e)									

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned **Total**	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned **Total**
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		

Dehydration	O&M	O/H Resv.	Fluid	**Total**
			(B)(4) (B)(7)(e)	

(B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)

* O&M proxy

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total Units	Exterran	Williams
Compressors	(B)(4)	(B)(4)	(B)(4)
Total Unidentified Location Depreciation	(B)(7)(e)		
Total Unidentified Location ROI			

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)		(B)(4)	
(B)(7)(e)	(B)(7)(e)	(B)(7)(e)	(B)(4)
			(B)(7)(e)

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)		(B)(4)	
		(B)(7)(e)	(B)(4)
			(B)(7)(e)

	Total	Exterran	Williams
Units			
(B)(4)			
(B)(7)(e)	(B)(7)(e)	(B)(4)	(B)(4)
		(B)(7)(e)	(B)(7)(e)

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)			
	(B)(7)(e)		

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)	(B)(7)(e)	(B)(4)	(B)(4)
		(B)(7)(e)	(B)(7)(e)

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)			
(B)(7)(e)			
(B)(7)(e)			

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)		(B)(4)	(B)(4)
		(B)(7)(e)	(B)(7)(e)

	Total	Exterran	Williams
Units	(B)(4)		
(B)(4)			
(B)(7)(e)		(B)(4)	
			(B)(4)
			(B)(7)(e)

Units "32-8-3" Area Depreciation "32-8-3" Area ROI	(B)(4) (B)(7)(e)
Units "32-9" Area Depreciation "32-9" Area ROI	(B)(4) (B)(7)(e)
Units "Aztec CDP & Miranda Area Depreciation "Aztec CDP & Miranda" Area ROI	(B)(4) (B)(7)(e)
Units "Cedar Hill Depreciation "Cedar Hill" Area ROI	
Units "East NEBU Depreciation East NEBU" Area ROI	(B)(4) (B)(7)(e)
Units El Cedro Depreciation El Cedro ROI	(B)(4) (B)(7)(e)
Units "Horse Canyon Area Depreciation "Horse Canyon" Area ROI	
Units "Manzanares Area Depreciation "Manzanares" Area ROI	
Units "Middle Mesa Area Depreciation "Middle Mesa" Area ROI	(B)(4) (B)(7)(e) (B)(4) (B)(7)(e)
Units "PLA 9 Depreciation "PLA 9" Area ROI	

	Total	Exterran	Williams
Units			
"Pritchard Area Depreciation			
"Prichard" Area ROI			(B)(4)
			(B)(7)(e)
Units	(B)(4)		
"Sims Mesa Depreciation	(B)(7)(e)		
"Sims Mesa ROI			
Units			
"Trunk A Depreciation			
"Trunk A ROI			
Units			
"Trunk B Depreciation			
"Trunk B ROI			(B)(4)
			(B)(7)(e)
Units			
"Kernaghan Straddle Depreciation	(B)(4)		
"Kernagahn Straddle ROI	(B)(7)(e)		
Total from Capital Costs wp			
Total from Capital Costs wp			
b= From Williams Asset Schedule see Capital			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year (m + n)	BBB 2006 (o * (B)(4) (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o *(B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o *(B)(4) BBB 2006 (B)(4)
	(B)(4) (B)(7)(e)		

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o *(B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o *(B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)	[redacted]	[redacted]

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o *(B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)	[redacted]	[redacted]

Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year	BBB 2006
		(m + n)	(o * (B)(4) (B)(4) * 1.3
(B)(4) (B)(7)(e)			(B)(4)

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4)) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
[redacted]			

(B)(4)
(B)(7)(e)

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
[redacted]	[redacted]	[redacted] (B)(4) (B)(7)(e)	[redacted]

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * [redacted] BBB 2006 [redacted]
[redacted]			

(B)(4)
(B)(7)(e)

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)	[redacted]	[redacted]

Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year (m + n)	BBB 2006 (o * (B)(4) (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)	[redacted]	[redacted]

Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year (m + n)	BBB 2006 (B)(4) (o * (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
	(B)(4) (B)(7)(e)		

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

		(m + n)	(o * (B)(4)
Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year	BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)		
	(B)(4) (B)(7)(e)		

Legacy Location Description	In Service Date	Undepreciated Bal Beginning of Year (m + n)	BBB 2006 (o * . (B)(4) (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)	[redacted]	[redacted]

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)

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(B)(7)(e)

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)

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(B)(7)(e)

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * .(B)(4) BBB 2006 (B)(4)
[redacted]	(B)(4) (B)(7)(e)		

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * .(B)(4) BBB 2006 (B)(4)
	(B)(4) (B)(7)(e)		

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
(B)(4) (B)(7)(e)			

Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
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Legacy Location Description	In Service Date	(m + n) Undepreciated Bal Beginning of Year	(o * (B)(4) BBB 2006 (B)(4)
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As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006 .0609 * 1.3

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
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Unknown Compressor Locations ROI

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Total

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
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(B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006.0609 * 1.3
1527															
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(B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006.0609 * 1.3
1612															
1613															
1614															
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006.0609 * 1.3
1697															
1698															
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1718						(B)(4)									
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1737															
1738															
				#N/A Total											
				Grand Total											

Unknown Compressor Locations from Compressor Depreciation Schedule

(B)(7)(e)

(B)(4)

Total Unkown Depreciation

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006 .0609 * 1.3
66															
67															
68															
69															
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82															
849				(B)(7)(e)											
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852															
853															
854				(B)(4)											
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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006 .0609 * 1.3
878															
879															
880															
881															
882															
883															
884															
885															
886				(B)(7)(e)											
887															
888															
889															
890															
891															
892															
893				(B)(4)											
894															
895															
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903															
904															
905															
906															
907															
908															
909															
910															
	Subtotal														**$**
	Grandtotal														**$**

ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(7)(e)

(B)(4)

Total Unkown ROI

Legacy Location Description	Yearly Costs
(B)(7)(e)	
(B)(4)	
Grand Total	

Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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30		(B)(7)(e)	
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35		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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86		(B)(7)(e)	
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90		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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148		(B)(7)(e)	
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150		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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222		(B)(7)(e)	
223		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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282		(B)(7)(e)	
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286		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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355		(B)(7)(e)	
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359		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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424		(B)(7)(e)	
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428		(B)(4)	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit
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474			
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491		(B)(7)(e)	
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494		(B)(4)	
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In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost
	(B)(7)(e)					
	(B)(4)					

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

(B)(7)(e)

(B)(4)

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost
	(B)(7)(e)					
	(B)(4)					

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

(B)(7)(e)

(B)(4)

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

(B)(7)(e)

(B)(4)

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost
(B)(7)(e)						
(B)(4)						

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost

(B)(7)(e)

(B)(4)

In Service

Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost
	(B)(4)					
	(B)(7)(e)					

Grand Total

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006
$				
$				
$				

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006
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Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006	
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Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006
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$				
$				

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
$				
$				
$				

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
$				
$				
$				

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
$				
$				
$				

Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
$				
$				
$				

Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)

(B)(7)(e)

Total Unkown Depreciation

Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description
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20	(B)(4)	
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22	(B)(7)(e)	
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1937 (B)(4)
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1939 (B)(7)(e)
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Legacy Location Description	In Service Date	Service Life	Remaining Life	(k/(h/12) Yearly Cost
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(B)(4)				(B)(7)(e)
(B)(7)(e)				

Legacy Location Description	In Service Date	Service Life	Remaining Life	Yearly Cost
(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)
Grand Total				

2006 Total Manzanares Gathering Costs

O & M	(B)(4)
G & A	(B)(7)(e)

Compression Cost

Williams	Exterran
(B)(4)	
(B)(7)(e)	

COST PROJECT

Unbundling Costs for putting gas in marketable condition

30 CFR § 206.151 Marketable Condition

- Marketable condition means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area

30 CFR § 206.152 (i)(2007)

- The lessee must place gas in marketable condition and market the gas for the mutual benefit of the lessee and the lessor at not cost to the Federal Government

San Juan Basin

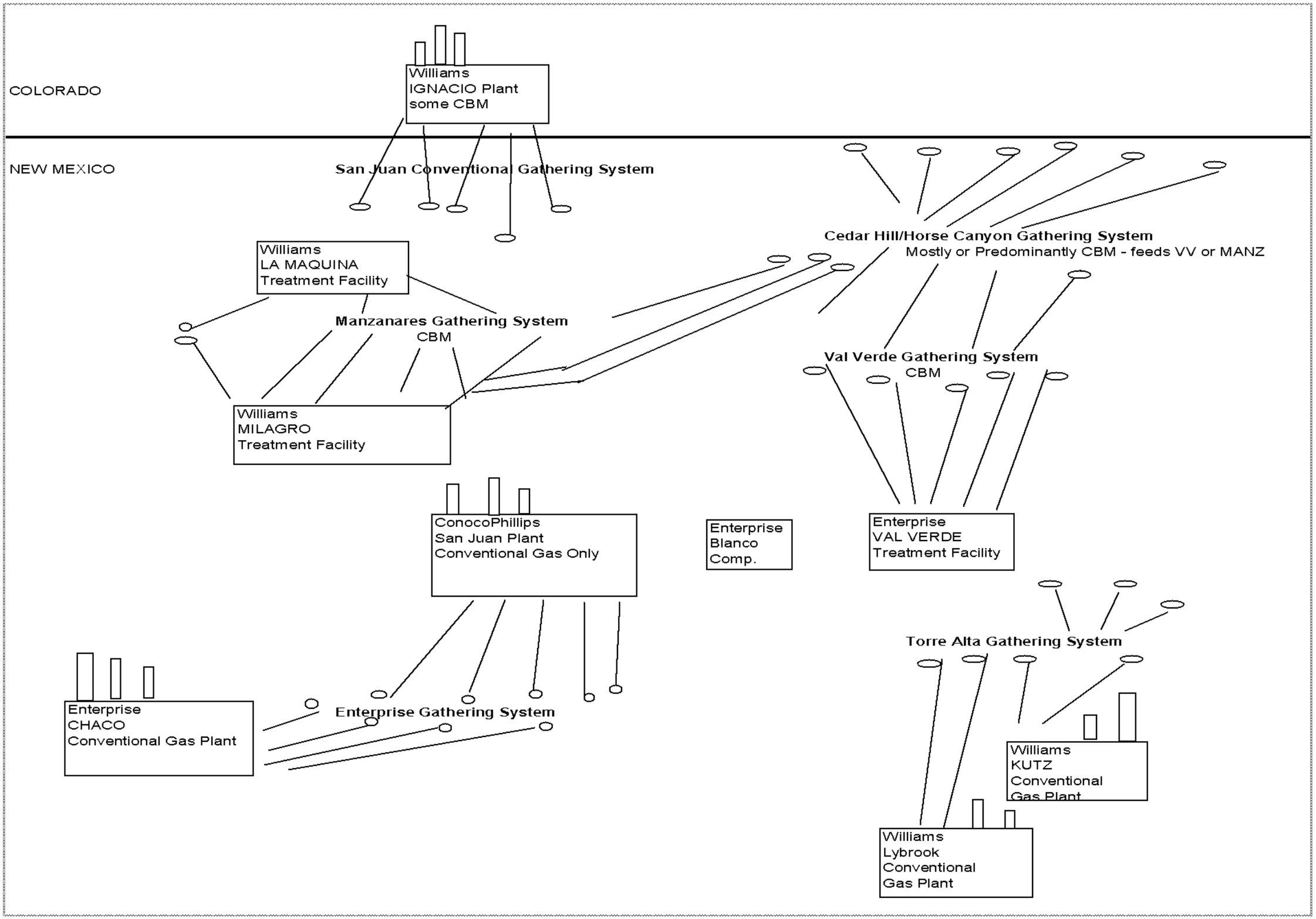
- Cost Project is currently focusing on plants situated in the San Juan Basin

- Auditors are working with MMS to establish allowable costs for each system

San Juan Basin
Gathering Systems

System	*Plant*	*Operator*	*Type Gas*
El Paso	Chaco Blanco	Enterprise	Conventional
Manzanares	Milagro	Williams	Coalbed Methane
Val Verde	Val Verde	Enterprise	Coalbed Methane
San Juan	Ignacio	Williams	Conventional
Torre Alta	Kutz Lybrook	Williams	Conventional

Gathering Systems



Manzanares – Milagro Percentages for 2006

- We used 30 CFR § 206.157(b) 2006 actual cost regulations for our methodology.

- Producers will be allowed to deduct (B)(7)(e) (B)(4) percent of costs charged by the Operator.

- The disallowed portion for 2006 resulted in (B)(7)(e) (B)(4) percent of the costs.

Manzanares – Milagro Fuel 2006

- Producers are charged volumetrically for fuel.
- Producers will be allowed to deduct (B)(4) (B)(7)(e) percent of the fuel cost.
- (B)(4) (B)(7)(e) percent fuel cost disallowed.

Format for Cost Allocation

- See Sample Schedules

- Unbundled Percentage Calculation schedule – costs were grouped by allowed and non-allowed individual assets by location.

- The sums were used to calculate unbundling percentages to be applied to contract rates charged by Williams Field Service. Those unbundling percentages represent allowed and non-allowed costs per marketable condition regulations.

- On the same schedule estimated fuel use was grouped and summed as above to be used to unbundle Producers fuel between allowed and non-allowed fuel costs.

• Depreciation and ROI were split between known and unknown costs.
Known costs are directly attributable to specific compressors, dehydrators or pipeline assets.

• Unknown costs are costs allocated to known locations. These represent costs that are located on the site and are costs for capital assets that are needed to install the asset to the system, "appurtenances" in William's terminology.

•Unknown costs also include costs that Williams was unable to identify the location.

- With William's assistance, we allocated all G & A/ O & M costs that could be

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(B)(7)(e)

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San Juan Blanco Flowchart

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(B)(7)(e)

2003 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression	(B)(4)	
Dehydration		
Pipeline	(B)(7)(e)	
Totals		
Cost Workpaper		
Variance	0	(0)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Location		Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk		Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	h	i	i	k	l	m	n	o	p
										(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

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a	b	g	h	i	j	k	l	m	n	o	p
				(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

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a	b	g	h	i	j	k	l	m	n	o	p
Subtotal Compressors											

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

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a	b	g	h	i	j	k	l	m	n	o	p
										(B)(4)	
				(B)(4)						(B)(7)(e)	
				(B)(7)(e)							

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

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a	b	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)										(B)(7)(e) (B)(4)	
Subtotal Dehydrators											

Allowed Costs

(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Location		Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
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a	b	g	h	i	j	k	l	m	n	o	p
(B)(4)								(B)(7)(e)			
				(B)(4)						(B)(7)(e)	
										(B)(4)	
											(B)(7)(e)
Subtotal Pipeline & Allowed Booster Cc				(B)(7)(e)							(B)(4)
Grand Total											

(B)(4)
(B)(7)(e)

Allowed	(B)(4)	*Allowed Fuel*	(B)(4)
Disallowed		*Disallowed Fuel*	

(B)(7)(e) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

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a	b	g	h	i	j	k	l	m	n	o	p

(B)(4)
(B)(7)(e)

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
Dehydrators Units	Total Units (B)(4)	(B)(4)
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	Total (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	Total (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	Total (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	Total (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	Total (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Units	Total	
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

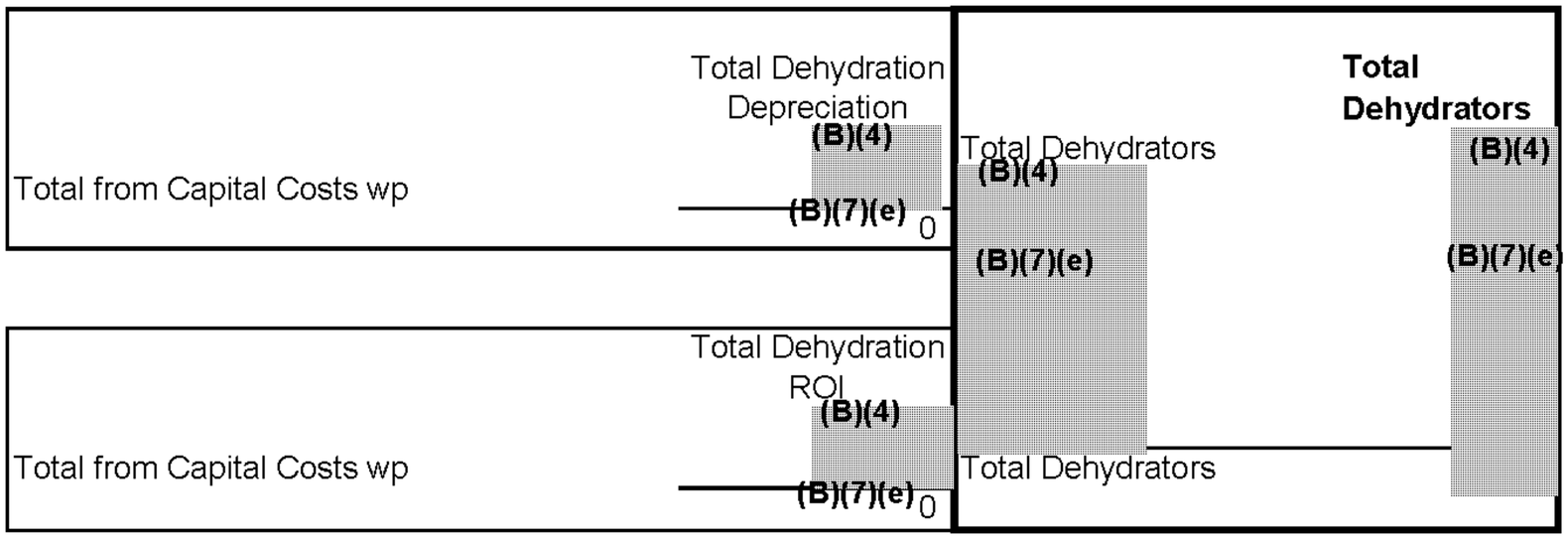
Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4)

Units	Total	
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION



b= From Williams Asset Schedule see Capital Cost
All Dehydrators are owned by Williams, there is not any rental

2003 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
	#N/A	
Total Unkown ROI		

Manzanares Dehydrators ROI

As of 12-31-2003

					In Service							Yearly Costs (m+n) k/(h/12)	(n+o)	(n+p)	(n+q)	2003 ROI (r*.0719)	
															2003		
Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date irst/Second Half Ye	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	Undepreciated Bal Beg Year	ROI 1/1/2003 (r*.0719)	2003 ROI 6/1/2003 (r*.0640)	Total BBB sum(s:t)
				Legacy Location Description Total															0
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(B)(4)

(B)(7)(e)

Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Service Remaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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(B)(7)(e)

Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Service Remaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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(B)(7)(e)

Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Yrvice Remaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs	(m+n)	(n+o)	(n+p)	(n+q)	
										k/(h/12)					
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Yrvice Lemaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Service Remaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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Manzanares Dehydrators
As of 12-31-2003

				In Service						Yearly Costs	(m+n)	(n+o)	(n+p)	(n+q)	
										k/(h/12)					
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Yervice Llemaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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Manzanares Dehydrators
As of 12-31-2003

				In Service							Yearly Costs	(m+n)	(n+o)	(n+p)	(n+q)	
											k/(h/12)					
Line	Asset Description	mer	Legacy Location Description	In Service Date	st/Second Half	Yrvice Lemaining Lif	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Costs	2006 Undepreciated Bal Beg Year	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003 ROI (r*.U/19)
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Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	a	b	c	d
Total Units				
Compressors	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Units	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Units	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Units	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total			(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	a	b	c	d
Units	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c	d
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total	Exterran	Williams
Units			
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		
		Exterran	Williams
Units			
(B)(4) (B)(7)(e)			
		Exterran	Williams
Units		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
(B)(4) (B)(7)(e)			
		Exterran	Williams
Units			
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
		Exterran	Williams
Units			
(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)
		Exterran	Williams
Units		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	a	b	c	d
	(B)(4) (B)(7)(e)			
Units	(B)(7)(e)	(B)(4) (B)(7)(e)	Exterran	Williams
Units	(B)(4) (B)(7)(e)	(B)(4)	Exterran	Williams
Units	(B)(4) (B)(7)(e)		Exterran (B)(4) (B)(7)(e)	Williams (B)(4) (B)(7)(e)
Total from Capital Costs wp		Total Compression Depreciation Yrly Cost (B)(4) (B)(7)(e) 0	(B)(4) (B)(7)(e) Total Compressors	Total Compressors (B)(4) (B)(7)(e)
		Total Compression ROI		

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	(B)(4) (B)(7)(e)		
Total from Capital Costs wp	0		

b= From Williams Asset Schedule see Capital Cost

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d	
Compressors	Total Units	Exterran	Williams	
	(B)(4)	(B)(4)	(B)(7)(e)	
Total Unidentified Location Depreciation	(B)(4)			
Total Unidentified Location ROI	(B)(7)(e)			
	Total	Exterran	Williams	
Units				
(B)(7)(e)				(B)(4) (B)(7)(e)
	(B)(4)	Exterran	Williams	
Units	(B)(7)(e)			
(B)(7)(e)				(B)(4) (B)(7)(e)
		Exterran	Williams	
Units				
				(B)(4) (B)(7)(e)
		Exterran	Williams	
Units				
(B)(7)(e)				(B)(4) (B)(7)(e)
		Exterran	Williams	
Units				
(B)(7)(e)				(B)(4) (B)(7)(e)
		Exterran	Williams	
Units		(B)(4)	(B)(4)	
(B)(7)(e)		(B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams	
Units				
(B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)
		Exterran	Williams	
Units				
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams	
Units (B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)
Units (B)(7)(e)				(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(7)(e)				(B)(7)(e) (B)(4)
Units (B)(7)(e)				(B)(7)(e) (B)(4)
Units (B)(4)				(B)(7)(e) (B)(4)
Units (B)(7)(e)				(B)(4) (B)(7)(e)
Units (B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d	
"Manzanares" Area ROI				
Units		Exterran	Williams	
(B)(4) (B)(7)(e)		(B)(4)	(B)(4)	(B)(4) (B)(7)(e)
Units	(B)(4) (B)(7)(e)	Exterran	Williams	
				(B)(7)(e) (B)(4)
Units		Exterran	Williams	
(B)(4) (B)(7)(e)				
Units		Exterran	Williams	
(B)(7)(e)				
Units		Exterran	Williams	
(B)(7)(e)				(B)(7)(e) (B)(4)
Units		Exterran	Williams	
				(B)(4) (B)(7)(e)
Units		Exterran	Williams	
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total Compression Depreciation Yrly Cost		Total Compressors
Total from Capital Costs wp	(B)(4) / (B)(7)(e) 0	(B)(4) / (B)(7)(e) Total Compressors	(B)(4) / (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) / (B)(7)(e) 0

b= From Williams Asset Schedule see Capital Cost

Manzanares Compressors
As of 12-31-2003

	ROI by Location		In Service								k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 1/1/2003 .0719
1439															
1440															
1482															
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725 (B)(7)(e)

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(B)(4)

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(B)(4)

Grand Total

(B)(7)(e)

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(B)(7)(e)

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2003

2003 Unknown Compressor Locations ROI

	(B)(4)
	(B)(7)(e)
Total	

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
1439															
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(B)(4)

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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

		In Service								k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
1271															
1308															
695															
702															
710															
713															
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
283															
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
1399															
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Manzanares Compressors
As of 12-31-2003

		In Service								k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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718															
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
520															
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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971															
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1193															

Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
1194															
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
1619															
340															
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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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Manzanares Compressors
As of 12-31-2003

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	(m+n) 2006 Undepreciated Bal Beginning of Year	(n+o) 2005 Undepreciated Bal Beginning of Year	(n+p) 2004 Undepreciated Bal Beginning of Year	(n+q) 2003 Undepreciated Bal Beginning of Year	(r*.0719) BBB 2003 .0719
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1408															
725															

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Manzanares Compressors
As of 12-31-2003

			In Service							k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
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148															
193															
251															
281															

Manzanares Compressors
As of 12-31-2003

		In Service								k/(h/12)	(m+n)	(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	2006 Undepreciated Bal Beginning of Year	2005 Undepreciated Bal Beginning of Year	2004 Undepreciated Bal Beginning of Year	2003 Undepreciated Bal Beginning of Year	BBB 2003 .0719
328															
334															
336															
358															
421															
444				(B)(4)											
489				(B)(7)(e)											
517															
534															
659															
692															
727															
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(B)(4)
(B)(7)(e)

Manzanares Dehydrators
As of 12-31-2003

Unknown Dehydration Locations from Dehydration Depreciation Schedule 2003

	Yearly Cost
(B)(4) (B)(7)(e)	
Total Unkown Depreciation	

Manzanares Pipeline
As of 12-31-2003

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	+/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) BBB 1/1/2003 .0719	BBB 6/1/2003 .0640	BBB 7/1/2003 .0685	Total BBB sum(s:u)
1																					
2																					
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 03
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDP 2003
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDR 2003
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As of 12-31-2003

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Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	03
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

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Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDP 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDP 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) BPP 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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As of 12-31-2003

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Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	DDP 2003
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) PRR 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDP 2003
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As of 12-31-2003

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Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	03
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Manzanares Pipeline
As of 12-31-2003

			In Service							k/(h/12)		(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	BBB 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 03
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)
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Manzanares Pipeline
As of 12-31-2003

			In Service							k/(h/12)		(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	DRR 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

			In Service							k/(h/12)		(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDR 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 03
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) DDP 2003
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Manzanares Pipeline
As of 12-31-2003

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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 03
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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003 (B)(4)
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Manzanares Pipeline
As of 12-31-2003

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Manzanares Pipeline
As of 12-31-2003

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As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)
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(B)(4)

Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)[3]
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Manzanares Pipeline
As of 12-31-2003

			In Service							k/(h/12)		(n+o)	(n+p)	(n+q)	(r*.0719)
Line	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beg Year	2003 Undepreciated Bal Beg Year	2002
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) (B)(4)
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719) RPS 2003
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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value	k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	(n+o) 2005 Undepreciated Bal Beg Year	(n+p) 2004 Undepreciated Bal Beg Year	(n+q) 2003 Undepreciated Bal Beg Year	(r*.0719)[3]
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(B)(7)(e)

(B)(4)

New Mexico Oil & Gas Bureau
Ms Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
		Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(q) subtotal/col (q) Total
Williams Manzanares System Map										
a	p	h	j	i	k	l	m	n	o	p

New Mexico Oil & Gas Bureau
7% Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map		Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) total	Williams 2006 typical exp $	col(q) subtotal/col (q) Total
a	g	h	i	j	k	l	m	n	o	p
Subtotal Compressors								#REF!		

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

New Mexico Oil & Gas Bureau
7th Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map		Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) total	Williams 2006 typical exp $	col(q) subtotal/col (q) Total
a	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)		(B)(4)				(B)(7)(e)			(B)(7)(e) (B)(4)	
Subtotal Dehydrators										

Allowed Costs

(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)								
Subtotal Pipeline & Allowed Booster Compres								#REF!	(B)(4)	(B)(4) (B)(7)(e)
Grand Total								#REF!		

Allowed	*#REF!*	*Allowed Fuel*	(B)(4)
Disallowed	*#REF!*	*Disallowed Fuel*	

(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)
Operational and depreciation expense for rental equipment because site expenses exist for these units

Manzanares

(000's)	O&M					
	2007	2006	2005	2004	2003	2002
Manzanares Gathering	(B)(4)		(B)(7)(e)			

	G & A					
	2007	2006	2005	2004	2003	2002
Totals			(B)(4)			(B)(7)(e)

2007 Typical Monthly Equipment O&M

Compressio	Williams Owned	Williams Owned	Williams Owned	Williams Owned	Total Yrlr Exp	Exterran Owned	Exterran Owned	Exterran Owned	Exterran Owned	Total Yrlr Exp
	O&M*	Fluid	O/H Resv.	**Total**		Rent	O&M	Fluid	**Total**	
	(B)(4)				(B)(7)(e)	(B)(4)				(B)(7)(e)
							(B)(4)			(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
			(B)(7)(e) (B)(4)						
Subtotal Compressors							(B)(4)		
			(B)(7)(e) (B)(4)						

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
		(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
			(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)	
Subtotal Dehydrators									
(B)(4)			(B)(7)(e)						

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
		(B)(4)	(B)(7)(e)				(B)(4)		(B)(7)(e)
Subtotal Pipeline & Allowed Booster Compressors									-
Grand Total									-

Yearly Operational Costs O & M and G & A	(B)(7)(e)
Less Yrl Operational Costs Compression & Dehydration	(B)(4)
Pipeline Costs	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003

MONTHLY EXPENSES

Final 4/22/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Manzanares

(000's)	2007	2006	2005	2004	2003	2002
	O&M					
Manzanares Gathering	(B)(4)					(B)(7)(e)
	G & A					
	(B)(4)					
Totals						

2007 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrlr Exp	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yrlr Exp
L7042GL			(B)(4)		(B)(7)(e)			(B)(4)		(B)(7)(e)
L5108GL										
9390GL						(B)(4)				(B)(7)(e)
3524GSI										
5790GSI										

2006 Total Manzanares Gathering Costs

O & M (B)(4)

G & A

(B)(7)(e)

Compression Cost

(B)(4)

Exterran

(B)(7)(e)

Williams Manzanares Allocation
Example

Location	Unit Type	Unit Ownership	Direct Depreciation	Indirect Depreciation	Area Depreciation	Direct ROI	Indirect ROI	Area ROI	Rent	O&M	Total Costs
29-6	(B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		
29-6											
29-6											
29-6											
29-6											
29-6											
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29-6											
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29-7											
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	Total	Exterran	Williams
Units	16		
Total Indirect Depreciation			
Total Indirect ROI			

Appertenances Costs =(cost /
Unit Costs =(cost /

	Total	Exterran	Williams
Units	10		
"29-6" Area Depreciation			
"29-6" Area ROI			

Williams Unit =(cost /
Unit =(cost / 2 / total units)

Line #	Allowed Comp	b	c	d	e	f	g	h
		Dep	ROI	Op	(b+c+d)	(E49/E54)		(H50/H52)
49	pl							
50	Allowed Comp							
51	Not Allowed Comp							
52	Total Comp							
53	deny							
54	Total							

(B)(4)
(B)(7)(e)

2004 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression		
Dehydration		
Pipeline		
Totals		
Cost Workpaper		
Variance		

(B)(7)(e)

(B)(4)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final FAS 2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4)														(B)(4)	
(B)(7)(e)															

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final HS-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(4)							(B)(4)	
							(B)(7)(e)								
Subtotal Compressors													(B)(4)		(B)(4)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final FES 2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(4)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final FS-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(7)(e) (B)(4)							(B)(7)(e) (B)(4)	
Subtotal Dehydrators													(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)

Allowed Costs

											(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)									

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final FAS 2009

Location	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map			Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)		(B)(7)(e) (B)(4)	(B)(4)	(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)	
Subtotal Pipeline & Allowed Booster Compressors													(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)
Grand Total															

Allowed Disallowed	Allowed Fuel Disallowed Fuel
(B)(4)	(B)(4)
(B)(7)(e)	(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Exper (B)(4) (B)(7)(e)
All dehydrators are (B)(4)
Operational and depreciation expense for exist for these units
(B)(7)(e)

Manzanares Pipeline
As of 12-31-2004

Line	Legacy Location Description	In Service In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value 2005 (Also undepreciated Bal Beginning of Year 2006)	(n+o) Undepreciated Bal Beginning Year 2005	(n+p) Undepreciated Bal Beginning Year 2004	BBB 2004 .0640
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3960	#N/A
3971	#N/A
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3973	#N/A
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3986	#N/A
3987	#N/A
3988	#N/A
3989	#N/A
3991	#N/A
3992	#N/A
3994	#N/A
3996	#N/A
3997	#N/A
3998	#N/A
3999	#N/A
4000	#N/A
4001	#N/A
4002	#N/A
4003	#N/A
4005	#N/A
4007	#N/A
4008	#N/A
4010	#N/A
4011	#N/A
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4100	#N/A	
4102	#N/A	
4103	#N/A	
4104	#N/A	
4105	#N/A	
4106	#N/A	
4107	#N/A	
4108	#N/A	
4109	#N/A	
4110	#N/A	
4111	#N/A	
4112	#N/A	
4113	#N/A	
4114	#N/A	
4115	#N/A	
	#N/A Total	
4116		
	Grand Total	

(B)(4)

(B)(7)(e)

Manzanares Pipeline
As of 12-31-2004

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	(m+n) Net Book Value 2005 (also undepreciated Bal Beginning of Year 2006)	(n+o) Undepreciated Bal Beginning Year 2005	(n+p) Undepreciated Bal Beginning Year 2004	BBB 2004 .0640	BBB 2004 5/1/2004 .0737	BBB 2004 6/1/2004 .0714	BBB 2004 8/1/2004 .0699	BBB 2004 11/1/2004 .0580	Total BBB sum(r:v)
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4067	#N/A	7	
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4074	#N/A		
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4076	#N/A	1	
4077	#N/A		
4078	#N/A	7	
4079	#N/A		
4083	#N/A		
4084	#N/A		
4085	#N/A	1	
4086	#N/A		
4087	#N/A		
4088	#N/A		
4089	#N/A	6	
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4091	#N/A	2	
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4093	#N/A	0	
4094	#N/A		
4095	#N/A	2	
4096	#N/A	4	
4097	#N/A		
4098	#N/A		
4099	#N/A		
4100	#N/A	7	
4102	#N/A	3	
4103	#N/A		
4104	#N/A	4	
4105	#N/A		
4106	#N/A		
4107	#N/A		
4108	#N/A		
4109	#N/A		
4110	#N/A		
4111	#N/A		
4112	#N/A		
4113	#N/A		

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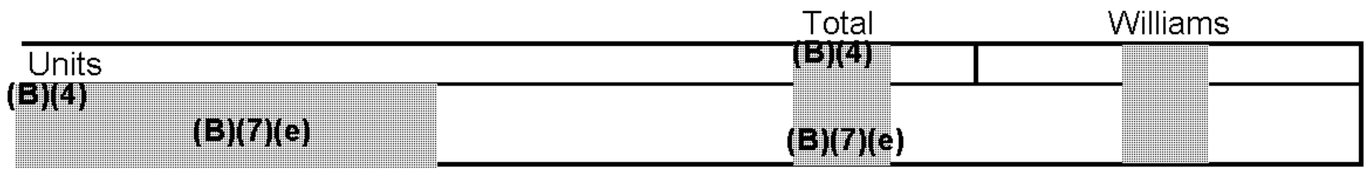
(B)(7)(e)

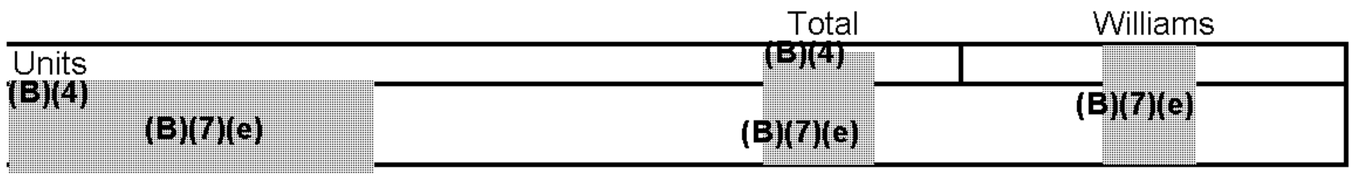
4114	#N/A	(B)(4)	(B)(7)(e)	(B)(7)(e)
4115	#N/A			(B)(4)
#N/A Total				
Grand Total				

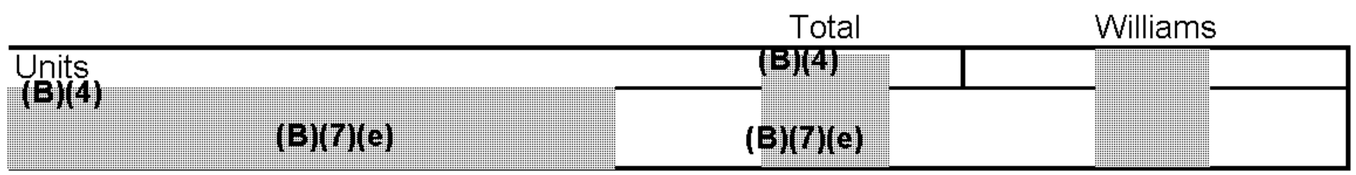
MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

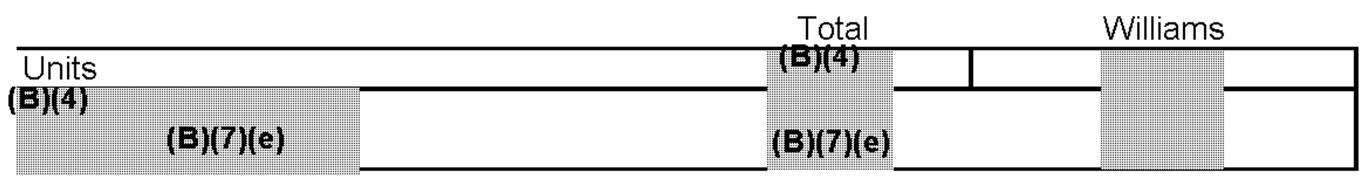
a	b	c
Dehydrators Units	Total Units	Williams
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)
Units	Total	Williams
(B)(4) (B)(7)(e)	(B)(7)(e)	
Units	Total	Williams
(B)(4)	(B)(4) (B)(7)(e)	
Units	Total	Williams
(B)(4) (B)(7)(e)		
Units	Total	Williams
(B)(4) (B)(7)(e)	(B)(7)(e)	
Units	Total	Williams
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)

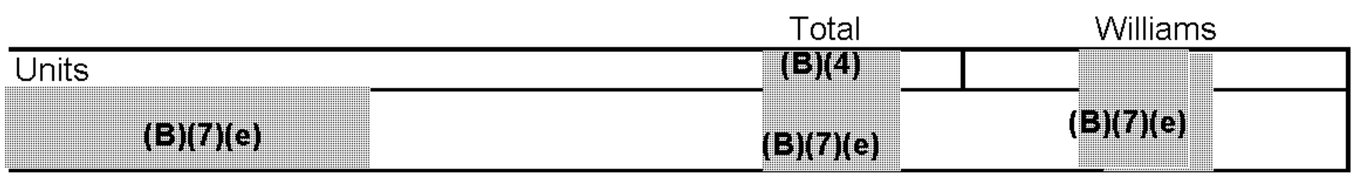
MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION



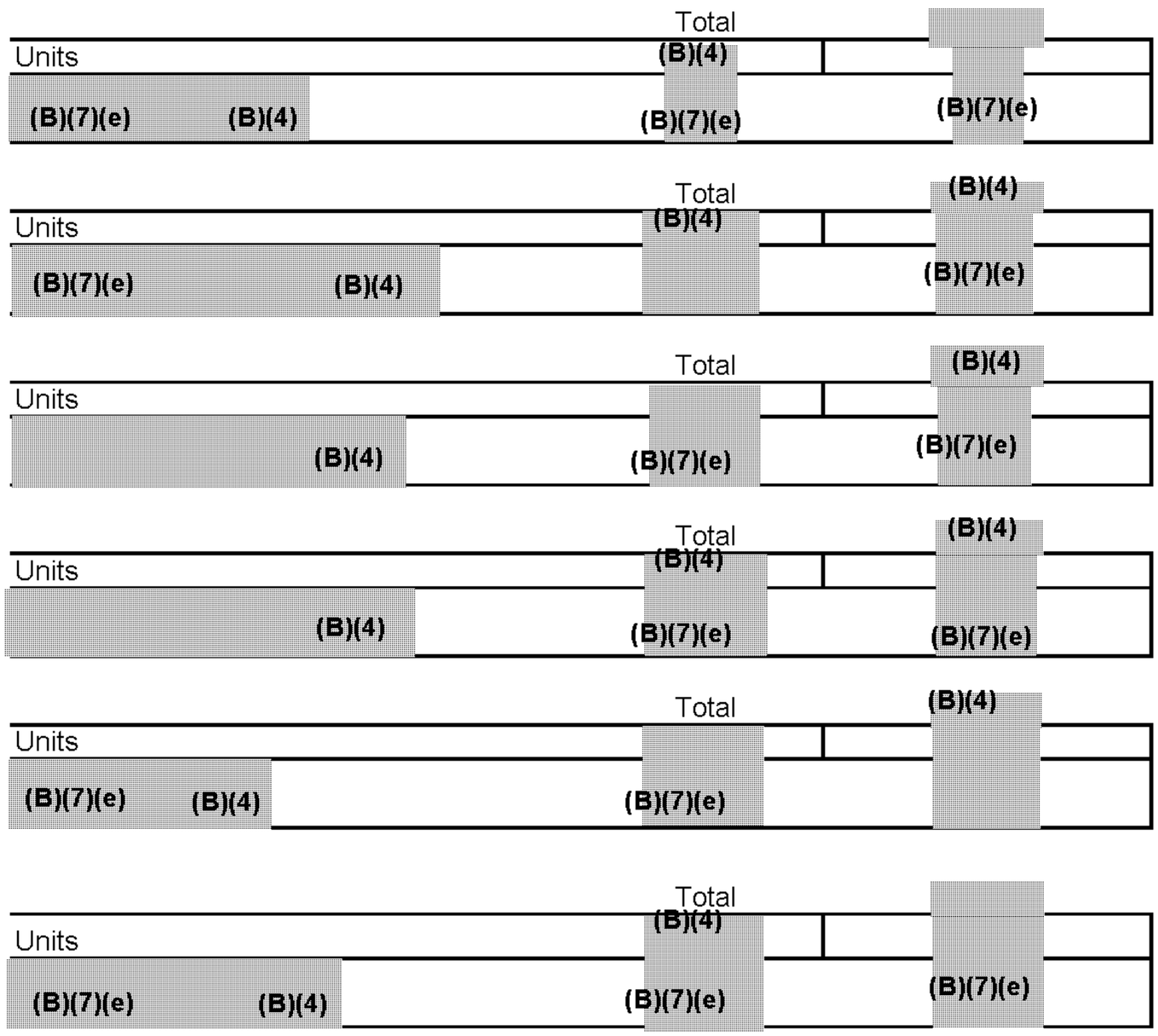








MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION



MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4) 0	Total Dehydrators (B)(7)(e)	**Total Dehydrators** (B)(7)(e) (B)(4)
Total from Capital Costs wp	Total Dehydration ROI (B)(7)(e) (B)(4) 0	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are (B)(4) (B)(7)(e)

Manzanares Dehydrators
As of 12-31-2004

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Valu	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Costs	Undepreciated Bal Beginning of Yr 2006 also (2005 Net Book Value)	Undepreciated Bal Beginning of Yr 2005	Undepreciated Bal Beginning of Yr 2004
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19													
20													
21					(B)(4)								
22													
23													
24													
25													
26													
27					(B)(7)(e)								
28													
29													
30													
31													
32													
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76													

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(7)(e)
(B)(4)

Grand Total

(B)(7)(e)
(B)(4)

2005 Unknown Compressor Locations from Compressor Depreciation Schedule

	Yearly Cost
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)
Total Unkown Depreciation	

Manzanares Compressors
As of 12-31-2004

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	2004 Undepreciated Bal Beginning of Year	2004 BBB .0640	2004 BBB 5/1/2004 .0657	2004 BBB 6/1/2004 .0714	2004 BBB 7/1/2004 .0722	2004 BBB 8/1/2004 .0699	2004 BBB 11/1/2004 .0580	Total BBB 2004 Sum(r:w)
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CDP Site_Attec - San Juan County Total

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Ross #1 Compressor - San Juan County Total

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Grand Total

2004 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
(B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4)	(B)(4) (B)(7)(e)
Units	Total	Exterran	Williams
(B)(4) (B)(7)(e)	(B)(7)(e)		
Units	Total	Exterran	Williams
(B)(7)(e)	(B)(4) (B)(7)(e)		
Units	Total	Exterran	Williams
(B)(7)(e)	(B)(7)(e)		
Units	Total	Exterran	Williams
(B)(7)(e)	(B)(7)(e)		
Units	Total	Exterran	Williams
(B)(7)(e)	(B)(4) (B)(7)(e)		
Units	Total	Exterran	Williams
(B)(7)(e)	(B)(4) (B)(7)(e)		
Units	Total	Exterran	Williams
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Units	Total	Exterran	Williams
(B)(7)(e)		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams

Units	Total	Exterran	Williams

Units	Total	Exterran	Williams
(B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)

Units	Total	Exterran	Williams

Units	Total	Exterran	Williams

Units	Total	Exterran	Williams
		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams

Units	Total	Exterran	Williams
(B)(7)(e)			

Units	Total	Exterran	Williams
(B)(7)(e)		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams
(B)(7)(e)			(B)(4) (B)(7)(e)

Units	Total	Exterran	Williams

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Exterran Williams

Units

(B)(4)
(B)(7)(e)

Exterran Williams

Units

(B)(4)
(B)(7)(e)

Total Compression Depreciation Yrly Cost

Total Compressors

Total from Capital Costs wp

(B)(4)
(B)(7)(e)

Caracas
Esperanza
Total Compressors

(B)(4)
(B)(7)(e)

Total Compression ROI

Total from Capital Costs wp

(B)(4)
(B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

2004 Unknown Compressor Locations ROI

	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total		

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Manzanares Compressors
As of 12-31-2004

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost
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(B)(4)(B)(7)(e)
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(B)(4)
(B)(7)(e)

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1727 (B)(4)
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1730 (B)(7)(e)
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1737
1738

Grand Total **(B)(4)**

Unknown Dehydration Locations from Dehydration Depreciation Schedule

Yearly Cost

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Total Unkown Depreciation

Manzanares Dehydrators
As of 12-31-2004

					In Service																
														(m+n)	(n+o)	(n+p)	(p*.0640)				
Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Costs	Net Book Value 2005(also Undepreciated Bal Beg Yr 2006)	Undepreciated Bal Beginning of Year 2005	Undepreciated Bal Beginning of Year 2004	BBB 2004	BBB 2004 5/1/2004	BBB 2004 6/1/2004	BBB 2004 8/1/2004	BBB 2004 11/1/2004	Total BBB Sum(r:v)
1																			(B)(4)	(B)(7)(e)		
2																						
3																						
4																						
5																						
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25																						(B)(4)
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29																						(B)(7)(e)
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31																						
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(B)(7)(e)

(B)(4)

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(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

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(B)(7)(e)

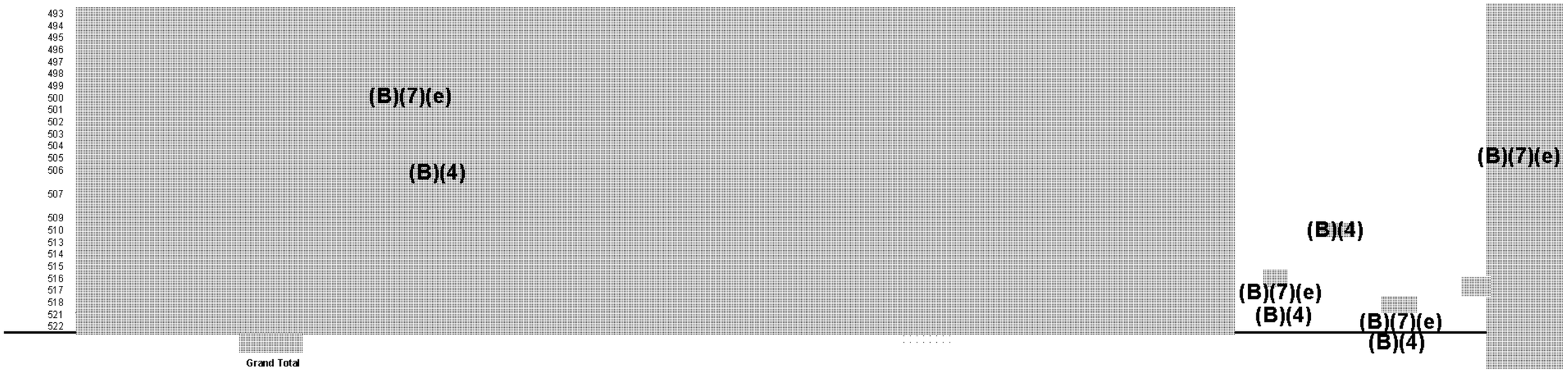
(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

2005 Dehydrator ROI



2004 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

Total Unkown ROI	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Manzanares System Cost Recap & Comparison

	2003 Yearly Cost-Direct Depreciation	2004 Yearly Cost-Direct Depreciation	2005 Yearly Cost-Direct Depreciation	2006 Yearly Cost-Direct Depreciation	2007 Yearly Cost-Direct Depreciation
Compression Dehydration Pipeline			(B)(4)		(B)(7)(e)

	ROI	ROI	ROI	ROI	ROI
Compression Dehydration Pipeline			(B)(4)		(B)(7)(e)

Manzanares

(000's)	O&M					
	2007	2006	2005	2004	2003	2002
Manzanares Gathering	(B)(4)					(B)(7)(e)

	G & A					
	2007	2006	2005	2004	2003	2002
Totals	(B)(4)					

2007 Typical Monthly Equipment O&M

Compressio	Williams Owned	Williams Owned	Williams Owned	Williams Owned	Total Yrlr Exp	Exterran Owned	Exterran Owned	Exterran Owned	Exterran Owned	Total Yrlr Exp
	O&M*	Fluid	O/H Resv.	**Total**		Rent	O&M	Fluid	**Total**	
L7042GL	(B)(4)				(B)(7)(e)	(B)(4)				(B)(7)(e)
L5108GL										
9390GL						(B)(4)				(B)(7)(e)
3524GSI										
5790GSI										

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)					(B)(7)(e)		(B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(7)(e) (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)					(B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	
								0 0	(B)(7)(e)
Subtotal Compressors									
(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4) (B)(7)(e)			(B)(7)(e)				(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)	
							(B)(7)(e)		
Subtotal Dehydrators							(B)(4)		
(B)(4)		(B)(7)(e)				(B)(7)(e)			

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4)		(B)(7)(e)		(B)(4)			(B)(4)	(B)(7)(e)
	(B)(4)		(B)(7)(e)		(B)(4) (B)(7)(e)			(B)(4)	
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Yearly Operational Costs O & M and G & A	(B)(4)
Less Yrl Operational Costs Compression & Dehydration	– (B)(7)(e)
Pipeline Costs	

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Manzanares

(000's)	O&M					
	2007	2006	2005	2004	2003	2002
Manzanares Gathering			(B)(4)			(B)(7)(e)
	G & A					
Totals			(B)(4)			

2007 Typical Monthly Equipment O&M										
Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrlr Exp	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yrlr Exp
L7042GL			(B)(4)		(B)(7)(e)			(B)(4)		(B)(7)(e)
L5108GL										
9390GL										
3524GSI								(B)(4)		(B)(7)(e)
5790GSI										

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Gathering	(B)(4)									(B)(7)(e)

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned **Total**	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned **Total**
	(B)(4) (B)(7)(e)	(B)(4)		(B)(7)(e)	(B)(4)			(B)(7)(e)
					(B)(4)		(B)(7)(e)	

Dehydration	O&M	O/H Resv.	Fluid	**Total**
			(B)(4)	(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

* O&M proxy

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 7-14-2009

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Deh y				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

See Note, Gary

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Final 7-14-2009

Disallowed Costs

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Willams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(7)(e) (B)(4)							(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 7-14-2009

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Willams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	e	f	g	h	i	j	k	l	m	n	o	p
		(B)(7)(e)												
Subtotal Compressors														

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(7)(e)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Final 7-14-2009

Disallowed Costs

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)	
Subtotal Dehydrators													(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)

Allowed Costs

(B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(7)(e) (B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 7-14-2009

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Deh y				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Willams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)			(B)(7)(e)			
					(B)(7)(e)			(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 7-14-2009

Location			Type Equi	Capacit	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Willams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
Subtotal Pipeline & Allowed Booster Compressors															
Grand Total															

(B)(4)

Allowed	(B)(4)	*Allowed Fuel*	
Disallowed		*Disallowed Fuel*	

(B)(7)(e) (B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)
Operational and depreciation expense for rental equipment because site expenses exist for these units

Manzanares Pipeline
As of 12-31-2005

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	(m+n) Net Book Value 2005 (also undepreciated Bal Beginning of Year 2006)	(n+o) Undepreciated Bal Beginning Year 2005	Jan- Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1																				
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3																				
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(B)(7)(e)

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(B)(7)(e)
Grand Total

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	Williams
Dehydrators Units		
(B)(7)(e) (B)(4)	(B)(7)(e)	(B)(7)(e)

	Total	
Units	(B)(4)	
(B)(4)	(B)(7)(e)	

	Total	Williams
Units	(B)(4)	
(B)(7)(e) (B)(4)	(B)(7)(e)	

	Total	Williams
Units		
(B)(7)(e) (B)(4)		

	Total	Williams
Units		
(B)(7)(e) (B)(4)	(B)(7)(e)	

	Total	Williams
Units	(B)(4)	
(B)(4)	(B)(7)(e)	

	Total	Williams
Units		
(B)(4)		

	Total	Williams
Units		
(B)(7)(e) (B)(4)	(B)(7)(e)	(B)(7)(e)

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Units	Total	Williams
(B)(4) (B)(7)(e)		

Units	Total	Williams
(B)(7)(e)		

Total	Williams

Units	Total	Williams

Units	Total	Williams

Units	Total	Williams
(B)(4) (B)(7)(e)		

Units	Total	Williams
(B)(4) (B)(7)(e)		

Units	Total	Williams
(B)(4)		

Units	Total	Williams

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are (B)(4) (B)(7)(e)

2005 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
	(B)(4)	(B)(4)	(B)(7)(e)
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(7)(e)

Units	Total	Exterran	
(B)(7)(e)			
Units			
(B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units			
(B)(7)(e)			
Units			
(B)(7)(e)			
Units			
(B)(4) (B)(7)(e)			
	Total		

Units						
(B)(4)	(B)(7)(e)		(B)(4)			
			(B)(7)(e)			

Units			Total	Exterran		Williams
(B)(4)	(B)(7)(e)		(B)(4)			
			(B)(7)(e)	(B)(7)(e)		(B)(7)(e)

	Total	Exterran	Williams
Units (B)(4) (B)(7)(e)			
Units (B)(4)			
Units (B)(4)			
Units (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	
Units (B)(4)			
Units			
Units (B)(4)			
Units (B)(4) (B)(7)(e)			
Units			

"Middle Mesa Area Depreciation
"Middle Mesa" Area ROI

		Exterran	Williams
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4)			
Units (B)(7)(e)			
Units			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			

	Total Compression Depreciation Yrly Cost	Total Compressors	
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e) Total Compressors	(B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(7)(e) / (B)(4)

b= From Williams Asset Schedule see Capital Cost

2005 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression		
Dehydration	(B)(4)	
Pipeline		
Totals		
Cost Workpaper	(B)(7)(e)	
Variance		

Manzanares Dehydrators
As of 12-31-2005

(B)(4)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Costs	(m+n) Net Book Value 2005(also Undepreciated Bal Beg Yr 2006)	(n+o) Undepreciated Bal Beginning of Year 2005	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/2005	Total 2005 BBB sum(q:t)
1																		
2																		
3																		
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6																		
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(B)(4)

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(B)(7)(e)

(B)(4)

Grand Total

2005 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Unkown ROI		

Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/2005	BBB 10/1/2005	BBB 11/1/2005	Total 2005 BBB sum(q:t)
1																				
2																				
3																				
4																				
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				CDP Site 29-6 - Rio Arriba County Total																

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/200	BBB 11/1/2005	Total 2005 BBB sum(q:t)
64																			
65																			
66																			
67																			
68																			
69																			
70																			
71																			
72																			
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/2005	BBB 10/1/200	BBB 11/1/2005	Total 2005 BBB sum(q:t)
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Manzanares Compressors
As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/2005	BBB 11/1/2005	BBB 11/1/2005	Total 2005 BBB sum(q:t)
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Manzanares Compressors
As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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Manzanares Compressors
As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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Manzanares Compressors
As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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As of 12-31-2005

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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As of 12-31-2005

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As of 12-31-2005

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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
946																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1024	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1027	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1028	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1029	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1033	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1036	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1038	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1039	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1041	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1042	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1043	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1044	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1045	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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1050	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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Manzanares Compressors
As of 12-31-2005

318,540

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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1141																				
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1143																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1271																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1334				Kornaghan B & Compressor - San Juan County Total																
1335																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1396																				
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1423					(B)(4)															
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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1463																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
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1547						(B)(7)(e)														(B)(4)
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1550																				
1551																				(B)(7)(e)
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1554																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1589																				
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1591																				
1592																				
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Manzanares Compressors
As of 12-31-2005

318,540

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005 (p/2*.0565)	Jul- Dec @ BBB 1/1/2005 (p/2*.0565)*1.3	BBB 10/1/2005 [(p/360)*3]*(.0605*1.3)	BBB 11/1/2005 [(p/360)*2]*(.0605*1.3)	Total 2005 BBB sum(q:t)
1653																				
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1661																				
1662																			(B)(7)(e)	
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1664																			(B)(4)	
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1666																		(B)(4)		
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1672																				
1673																				
1674																		(B)(7)(e)		
1675																				
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1677																				
1678																				(B)(4)
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1680																				
1681																				
1682																				(B)(7)(e)
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1684						(B)(4)														
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Manzanares Compressors
As of 12-31-2005

318,540

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Net Book Value2005 (also Undepreciated Bal Beginning of Year 2006)	2005 Undepreciated Bal Beg Year	Jan-Jun @ BBB 1/1/2005	Jul- Dec @ BBB 1/1/2005	BBB 10/1/2005	BBB 11/1/2005	Total 2005 BBB sum(q:t)
1725																				
1726																				
1727																				
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1729																				
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1737																				
1738																				
				Grand Total																

(B)(4)

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2005 Unknown Compressor Locations ROI

(B)(4)	
	(B)(4)
	(B)(7)(e)
Total	

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Manzanares Pipeline
As of 12-31-2005

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Undepreciated Bal Beginning of Year/2005 Net Book Value	(n+o) 2005 Undepreciated Bal Beg Yr	2005 BBB
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Remaining Life	Salvage Valu	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Costs	2005 Net Book Value	Undepreciated Bal Begin Yr 2005

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(4)
(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4) (B)(7)(e)

In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value 2006	Yearly Cost	Undepreciated Bal Beginning of Year 2006/2005 NBV	2005 Undepreciated Bal Beg Year	BBB 2005 .0565 * 1.3

(B)(7)(e)

(B)(4)

2005 Compressors

(B)(4)
(B)(7)(e)
(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

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(B)(7)(e)

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(B)(7)(e)

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(B)(7)(e)

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(B)(4)

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(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

2005 Unknown Compressor Locations from Compressor Depreciation Schedule

	Yearly Cost
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Unkown Depreciation	

Unknown Dehydration Locations from Dehydration Depreciation Schedule

Total Unkown Depreciation	Yearly Cost
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e)					(B)(4)						(B)(7)(e)	(B)(4)

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)											(B)(4) (B)(7)(e)	

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
						(B)(7)(e)					(B)(7)(e)	
						(B)(4)					(B)(4)	
Subtotal Compressors											(B)(4)	(B)(7)(e)
(B)(7)(e)												

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
				(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)	

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
	(B)(7)(e) (B)(4)					(B)(7)(e) (B)(4)					(B)(4) (B)(7)(e)	
Subtotal Dehydrators											(B)(4)	(B)(7)(e)

Allowed Costs

# N/A Total 29-5	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)		

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
	(B)(7)(e)			(B)(7)(e) (B)(4)					(B)(7)(e) (B)(4)			
		(B)(7)(e)	(B)(4)				(B)(4)	(B)(7)(e)			(B)(4) (B)(7)(e)	

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)	
Subtotal Pipeline & Allowed Booster Compressors										(B)(7)(e)		
Grand Total												

Allowed	(B)(4)	*Allowed Fuel*	(B)(4)
Disallowed		*Disallowed Fuel*	(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)

Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are owned by Williams, there is no rental expense.
Operational and depreciation expense for rental equipment because site expenses exist for these units

Unknown Compressor Locations from Compressor Depreciation Schedule

(B)(7)(e)
(B)(4)

Total Unkown Depreciation

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
William s Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	William s Manzanares Comp/Dehy			Dep/ROI by unit & location wp	William s Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m + o)	col (p) sub total/col(p) Total	William s 2006 typical + wp $	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	k	l	m	n	o	p
(B)(4) (B)(7)(e)													(B)(4) (B)(7)(e)	

Prepared by Julie Maddox Date: 1/5/2009
Reviewed by: _____ Date: _____
W/Workpaper: Manzanares Cost

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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares system Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy			Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical MO Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical $	col(q) subtotal/col(q) total
a	b	c	d	e	f	g						h		p
(B)(4)					(B)(7)(e)									
Subtotal Compressors														
(B)(7)(e)												(B)(7)(e)		(B)(4) (B)(7)(e)
(B)(7)(e) (B)(4)								(B)(7)(e)					(B)(4) (B)(7)(e)	

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Prepared by Julie Maddox Date: 1/5/2009
Reviewed by: _____ Date: _____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Urknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares system Map	Trunk	Allowed (A) or Not Allowed (NA) / Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m + o)	col (p) sub total/col(p) Total	Williams 2006 typical exp	subtotal/col (p) total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4)				(B)(7)(e)				(B)(4)					(B)(4)	(B)(4)
Subtotal Dehydrators														

Allowed Costs

(B)(7)(e)						(B)(7)(e)		(B)(4)			(B)(7)(e)	(B)(7)(e)		
								(B)(7)(e)						
											(B)(7)(e)			

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4) (B)(7)(e)				(B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(7)(e) (B)(4)				(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e) (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

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Cost Project
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MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(7)(e) (B)(4)					(B)(4) (B)(7)(e)		(B)(7)(e) (B)(4) (B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	
Subtotal Compressors							(B)(4) (B)(7)(e)		
(B)(7)(e) (B)(4)				(B)(7)(e) (B)(4)	(B)(7)(e)				

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MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	

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Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	

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205 Federal Royalty Audit Program
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MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
	(B)(4)	(B)(7)(e)		(B)(7)(e)	(B)(4)			(B)(4) (B)(7)(e)	
Subtotal Dehydrators							0.00		
	(B)(4)		(B)(7)(e)		(B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)	
	(B)(4)		(B)(7)(e)		(B)(4) (B)(7)(e)		(B)(7)(e)		
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Yearly Operational Costs O & M and G & A
Less Yrl Operational Costs Compression & Dehydration
Pipeline Costs

(B)(4)
(B)(7)(e)

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MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Ga	(B)(4)									(B)(7)(e)

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrly Exp	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yearly Exp
L7042GL			(B)(4)		(B)(7)(e)					
L5108GL										
9390GL								(B)(4)		
3524GSI										
5790GSI										
Dehydration										
	O&M	O/H Resv.	Fluid	Total	Total Yrly Exp					
				(B)(4)	(B)(7)(e)					

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Work paper: Monthly Expenses

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Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	Own	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total Units	Exterran	Williams
Compressors		(1	
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			

	Total	Exterran	Williams
		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
(B)(4) (B)(7)(e)			
			(B)(4) (B)(7)(e)
	(B)(4) (B)(7)(e)		
(B)(4) (B)(7)(e)			

(B)(7)(e)

(B)(4)
(B)(7)(e)

Total

Units

Units
(B)(4)

Units
(B)(7)(e) (B)(4)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units
(B)(4)

Units
(B)(4)

Units
(B)(4)

Units
(B)(7)(e) (B)(4)

Units
(B)(4)

Units
(B)(4)

Units
(B)(7)(e) (B)(4)

	Total			
Units				
"Trunk B Depreciation	(B)(4)	(B)(4)	(B)(4)	
"Trunk B ROI	(B)(7)(e)	(B)(7)(e)	(B)(7)(e)	
Units				
"Kernaghan Straddle Depreciation				
"Kernagahn Straddle ROI	1			

	Total Compression Depreciation	Total Compressors	
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e) Total Compressors	(B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006 .0609 * 1.3
1															
2															
3															
4															
5															
6															
7															
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Less 29-6#4	
Less Trunk A	
Less Trunk B	
Less Trunk C	
Total ROI Compressors	

Grand Total

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total Units	c Williams
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		
Units (B)(7)(e)		
Units (B)(4) (B)(7)(e)		
Units (B)(4) (B)(7)(e)		
Units (B)(7)(e)		
Units (B)(4) (B)(7)(e)		

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	Williams
Units (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(7)(e)		
Units (B)(7)(e)		
Units (B)(7)(e)		
Units (B)(7)(e)		
Units (B)(4) (B)(7)(e)		
Units (B)(4) (B)(7)(e)		
(B)(4) (B)(7)(e)		

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4) (B)(7)(e)	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are (B)(4) (B)(7)(e)

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * .0609)* 1.3 BBB 2006	BBB 2/1/2006	BBB 6/1/2006	Total BBB (pxr)
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38				(B)(4)														
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42																		
43				(B)(7)(e)														
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Grand Total

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Grand Total

(B)(4)

Year	2003	2004	2005	2006	2007	2008	2009
Jan	7.19	6.40	5.65	6.09	6.47	6.88	9.37
Feb	7.09	6.43	5.51	6.13	6.48	7.33	9.34
Mar	7.12	6.23	5.80	6.27	6.26	7.38	9.61
April	7.05	6.84	5.84	6.73	6.41	7.19	9.36
May	6.57	7.37	5.82	6.80	6.38	7.22	8.80
June	6.40	7.14	5.63	6.85	6.63	7.42	
July	6.85	7.22	5.68	6.85	6.64	7.48	
Aug	7.32	6.99	5.76	6.66	6.71	7.54	
Sept	7.07	6.82	5.73	6.53	6.77	7.54	
Oct	7.00	6.34	6.05	6.56	6.93	8.59	
Nov	6.84	5.80	6.18	6.37	6.84	9.94	
Dec	6.70	5.75	6.10	6.28	6.78	9.67*	

Beginning with September 2007, the data provided by S&P used Wednesday as the close of each week.
All preceding months and years, the weekly average was calculated with Friday as the close of the week.
Calculations by individual companies may vary from above stated averages, due to different day used as close of week by SP for subscriptions.

* Per S&P - Weekly calculations were only made for 1st 3 weeks of December. No bond rate yields for Dec 22-Dec 31 were posted.

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(B)(7)(e)

Unknown Compressor Locations ROI

(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)
Total	

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006 (B)(4)

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Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * BBB 2006 **(B)(4)**
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851				**(B)(4)**											
852															
853															
854															
855				**(B)(7)(e)**											
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Manzanares Compressors
As of 12-31-2006

(B)(4)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Cost	(m + n) Undepreciated Bal Beginning of Year	(o * PPR 2006 (B)(4)
877															$
878															$
879															$
880															$
881															$
882															$
883															$
884															$
885															$
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886															$
887															$
															$
888															$
889				(B)(7)(e)											$ (B)(4)
890															$
891															$
892															(B)(7)(e)
893				(B)(4)											$
894															$
895															$
896															$
897															$
898															$
899															$
900															$
901															$
902															$
903															$
904															$
905															$
906															$
907															$
908															$
909															$
910															$
	Subtotal														**$**
	Grandtotal														**$**

ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Total Unkown ROI		

Legacy Location Description	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs
(B)(4)							
(B)(7)(e)							

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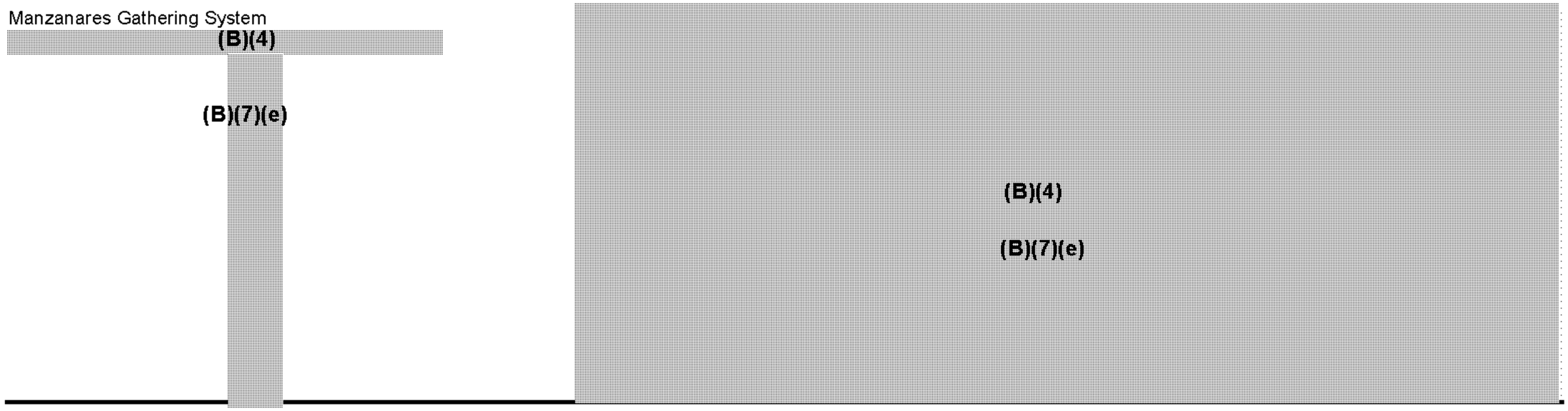
Manzanares Gathering System
(B)(4)
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 1/1/2006	BBB 6/1/2006	Total ROI
															(B)(4)		

(B)(4)

(B)(7)(e)

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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB (B)(4)	BBB 12/31/2006	Total ROI
85																	
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 1/1/2006	BBB 12/31/2006	Total ROI
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 1/1/2006	BBB 12/31/2006	Total ROI
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 6/1/2006	Total ROI
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Manzanares Dehydrators
As of 12-31-2006

ROI Dehydrators

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of Year	BBB 1/1/2006	BBB 12/31/2006	Total ROI
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	(k/(h/12) Yearly Cost	Undepreciated Bal Beginning of Year	BBB 1/1/2006	BBB 2/1/2006	BBB 8/1/2006	Total BBB sum(p:r)
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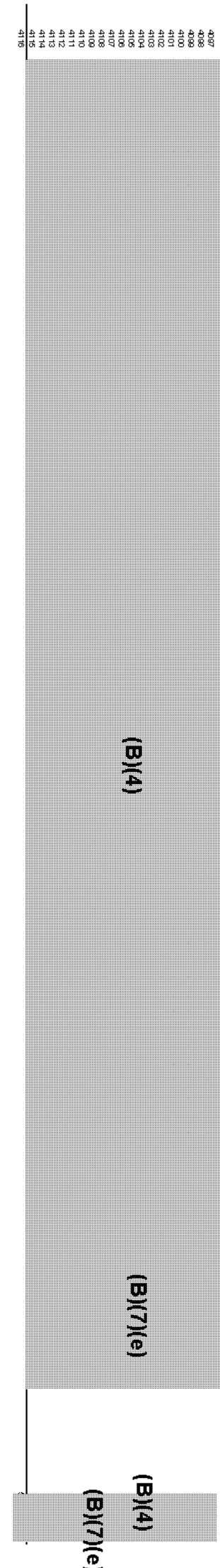
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Manzanares Pipeline
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	(k/(h/12) Yearly Cost
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Grand Total

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 7-10-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
						(B)(4) (B)(7)(e)								(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 7-10-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)	
Subtotal Compressors															(B)(7)(e)
			(B)(4) (B)(7)(e)												

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 7-10-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		(B)(4) (B)(7)(e)					(B)(7)(e)							(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 7-10-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)	
Subtotal Dehydrators													(B)(7)(e)	(B)(4)	

Allowed Costs

(B)(7)(e)

(B)(4) (B)(7)(e)

(B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 7-10-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	(B)(4) (B)(7)(e)				(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)		(B)(7)(e)			(B)(4) (B)(7)(e)			
Subtotal Pipeline & Allowed Booster Compressors													(B)(4)		
Grand Total															

Allowed		Allowed Fuel	(B)(4)
Disallowed		Disallowed Fuel	

(B)(7)(e) (B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are owned by Williams, there is no rental expense.
Operational and depreciation expense for rental equipment because site expenses exist for these units

2007 Cost Recap & Comparison

	Yearly Cost Direct Depreciation	ROI
Compression	(B)(7)(e)	
Dehydration	(B)(4)	
Pipeline		
Totals		
Cost Workpaper		
Variance		

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	
	Total Units	Williams	
Dehydrators Units (B)(7)(e)	(B)(4)	(B)(4)	
Total Unidentified Location Depreciation Total Unidentified Location ROI	(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)
	Total	Williams	
Units (B)(4) (B)(7)(e)			(B)(4)
Units (B)(7)(e)			
Units (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	
Units (B)(4) (B)(7)(e)			
Units (B)(7)(e)			
Units (B)(7)(e)			(B)(4)
Units (B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	Williams	
Units (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(7)(e)			
Units (B)(7)(e)			
Units (B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total		Williams		
Units					
Sims Mesa Depreciation	(B)(4)		(B)(4)		(B)(4)
Sims Mesa ROI	(B)(7)(e)		(B)(7)(e)		(B)(7)(e)

	Total Dehydration Depreciation	Total Dehydrators	**Total Dehydrators**
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Dehydrators			

	Total Dehydration ROI
Total from Capital Costs wp	(B)(4)

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are owned by Williams, there is not any rental

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION 2007

a	b	c	d
	Total Units	Exterran	Williams
Compressors	(B)(4)		(B)(4)
Total Unidentified Location Depreciation	(B)(7)(e)		
Total Unidentified Location ROI			

	Total	Exterran	Williams
Units			
(B)(7)(e)			
Units			
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units			
(B)(7)(e)			
Units			
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(B)(7)(e)			
Units			
(B)(4) (B)(7)(e)			
Units			

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Units

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	Total			
Units (B)(7)(e)				
Units (B)(4) (B)(7)(e)				
Units (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(7)(e)				
Units (B)(7)(e)				
Units (B)(7)(e)				
Units (B)(7)(e)				
Units (B)(4) (B)(7)(e)				

	Total Compression Depreciation	Total Compressors	
Total from Capital Costs wp	(B)(4) (B)(7)(e) 0	(B)(4) (B)(7)(e) Total Compressors	(B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

Manzanares Pipeline
As of 12-31-2007

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2007 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	.0647 * 1.3
1	(B)(4) (B)(7)(e)														(B)(4) (B)(7)(e)
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2007 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	.0647 * 1.3
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2007 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	.0647 * 1.3
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2007 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	.0647 * 1.3
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2007 Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	.0647 * 1.3
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Manzanares Dehydrators
As of 12-31-2007

In Service

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Grand Total

Manzanares Dehydrators
As of 12-31-2007

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2007 Dehydrator ROI

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2007 Dehydrator ROI

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2007 Dehydrator ROI

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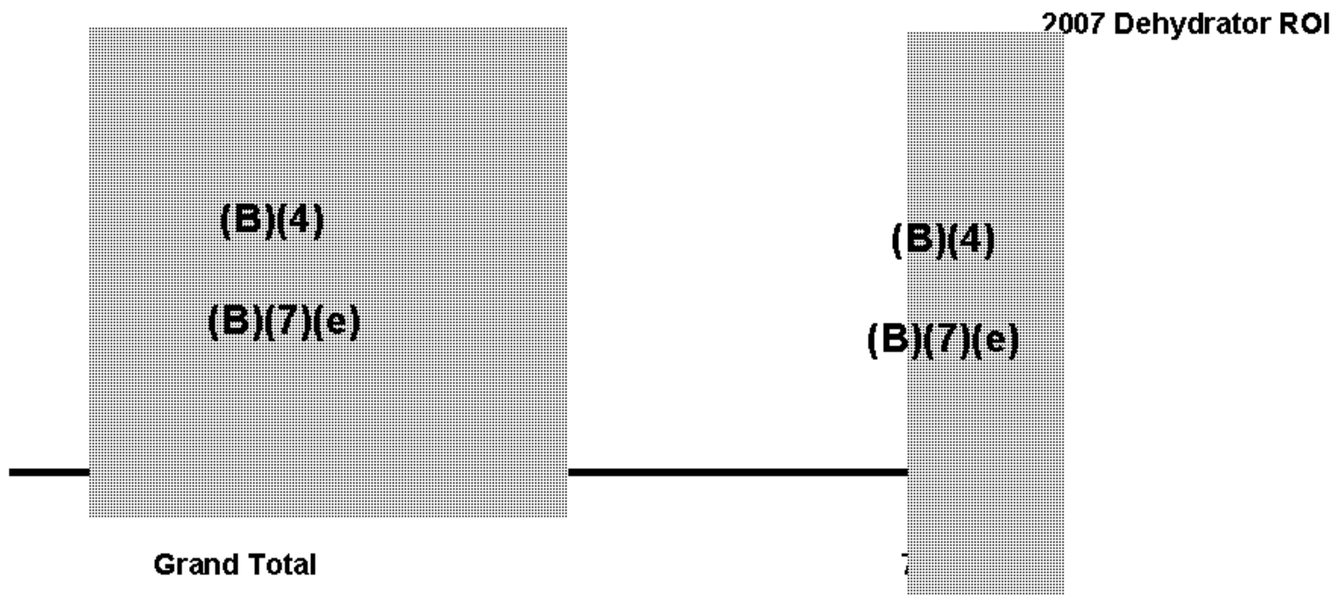
2007 Dehydrator ROI
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Grand Total

2007 Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)

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Total Unkown Depreciation

2007 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)
Total Unkown ROI	

Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	(B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	(B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service: First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	RRB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	(B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BRR 2007
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBD 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	RRR 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	PBB 2007
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	RRR 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	(B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	31-12-07
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	RRR 2007
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Manzanares Compressors
As of 12-31-2007

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service: First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
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Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
1387														
1388														
1389														
1390														
1391														
1392														
1393														
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1441														
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1443														
1444														
1445														
1446														
1447														
1448														
1449														
1450														

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007
1451														(B)(4)
1452														
1453														
1454														
1455														
1456														
1457														
1458														
1459														
1460														
1461														
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1515														
1516														
1517														
1518														
1519														
1520														
1521														

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
1522														
1523														
1524														
1525														
1526														
1527														
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1585														
1586														
1587														
1588														
1589														
1590														

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007 (B)(4)
1591														
1592														
1593														
1594														
1595														
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1659														

(B)(7)(e)

(B)(4)

Manzanares Compressors
As of 12-31-2007

In Service

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	PRR 2007 (B)(4)
1660														
1661														
1662														
1663														
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1668														
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1730														

(B)(4)

(B)(7)(e)

Manzanares Compressors
As of 12-31-2007

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value/Undepreciated balance beginning year 2007	Yrly Cost	BBB 2007
					(B)(4)							(B)(7)(e)		(B)(4)
				#N/A Total										
				Grand Total										

Unknown Compressor Locations ROI 2007

(B)(4)

(B)(7)(e)

(B)(7)(e)
(B)(4)

Unknown locations provided by Williams (Williams called these "Indirect Locations")

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	[redacted]
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	[redacted]
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	

(B)(4)

(B)(7)(e)

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	[redacted]
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	[redacted]
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e) (B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
[redacted]	
(B)(4)	
(B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(7)(e)	
(B)(4)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4) (B)(7)(e)	

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4) (B)(7)(e)	
30 CFR 206.157(B)(v) Rate of return must be 1.3 time	
Grand Total	(B)(7)(e)

Unknown Compressor Locations from Compressor Depreciation Schedule 2007

	Yearly Cost
(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)
Total Unkown Depreciation	

Williams Financial Data and Typical Equipment Expenses
Manzanares

(000's)	O&M 2007	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2007	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Gathering	(B)(4)											(B)(7)(e)

2006 Typical Monthly Equipment O&M

Compression	(B)(4) Owned	(B)(4) Owned	(B)(4) Owned	(B)(7)(e) Owned	Total Yrlr Exp	(B)(4) Owned	(B)(4) Owned	(B)(4) Owned	(B)(7)(e) Owned	Total Yrlr Exp
	O&M*	Fluid	O/H Resv.	Total		Rent	O&M	Fluid	Total	
(B)(4) (B)(7)(e)	(B)(4)		(B)(7)(e)			(B)(4)		(B)(7)(e)		(B)(7)(e)
						(B)(4)		(B)(7)(e)		

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
		(B)(7)(e) (B)(4)					(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)							(B)(7)(e) (B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
[redacted]			(B)(7)(e) (B)(4)				(B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	[redacted]
Subtotal Compressors							1		
[redacted]			(B)(4) (B)(7)(e)				(B)(7)(e)		[redacted]

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)								(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
			(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
			(B)(4) (B)(7)(e)				(B)(4)	(B)(7)(e) (B)(4)	
Subtotal Dehydrators									
			(B)(4) (B)(7)(e)				(B)(7)(e)		
			(B)(4)		(B)(7)(e)		(B)(4) (B)(7)(e)		
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Yearly Operational Costs O & M and G & A
Less Yrl Operational Costs Compression & Dehydration
Pipeline Costs (B)(7)(e)

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007

MONTHLY EXPENSES

Final 2/10/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Williams Financial Data and Typical Equipment Expenses
Manzanares

(000's)	O&M 2007	2006	2005	2004	2003	2002
Manzanares Gathering	(B)(4)					(B)(7)(e)

	G & A 2007	2006	2005	2004	2003	2002
Totals	(B)(4)					(B)(7)(e)

2007 Typical Monthly Equipment O&M

Compression	(B)(4) O&M*	Fluid	O/H Resv.	Total	Total Yrlr Exp	(B)(7)(e) Owned Rent	(B)(4) Owned O&M	Owned Fluid	Owned Total	Total Yrlr Exp
(B)(4) (B)(7)(e)	(B)(4)				(B)(7)(e)	(B)(7)(e)		(B)(4)		(B)(7)(e)

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	Yrly Cost	Undepreciated Bal Beginning of Year	BBB 2007
CDP Site												
CDP Site												
CDP Site												

CDP Site
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(B)(7)(e)

30 CFR 206.157(B)(v) Rate of return must be 1.3 times the industrial rate associated witk S & P BBB rating (2008)
2007 BBB rating = (B)(4)

Manzanares Pipeline
As of 12-31-2007

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Service Da	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	2006 Net Book Value 2007 Undepreciated balance beginning year	(k/(h/12) Yearly Cost	BBB 2007 .0647 * 1.3
1														
2														
3														
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33				(B)(7)(e)										
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37														
38				(B)(4)										
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40														
41														
42														
43														
44														
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(B)(7)(e)

(B)(4)

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4091	(B)(7)(e)
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4109	
4110	
4111	
4112	
4113	
4114	
4115	
4116	Grand Total

(B)(4)

From: Maddux, Julia, TRD
Sent: Friday, August 07, 2009 2:42 PM
To: Severson, Valdean H., TRD; Lougee, Jack R., TRD
Subject: Dear Payor Letter annual factor
Valdean,

I checked to make sure the Dear Payor is using the final percentages I calculated on the Manzanares. The annual allowable calculation in Dear Payor letter is correct.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Maddux, Julia, TRD
Sent: Friday, July 17, 2009 1:54 PM
To: 'Ernest, Mike'
Subject: Manzanares 2004 revised schedules corrected ROI's
Manzanares revised 2004 schedules corrected ROI's

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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a. Equipment owned & operated by Others (rented)
b. Company owned & operated by Others
c. Company owned & operated
d. Overhaul reserve
e. Fluids
(For equipment owned and operated by others use that cost as a Proxy for Company operated units)

San Juan Blanco Flowchart

(B)(4)

(B)(7)(e)

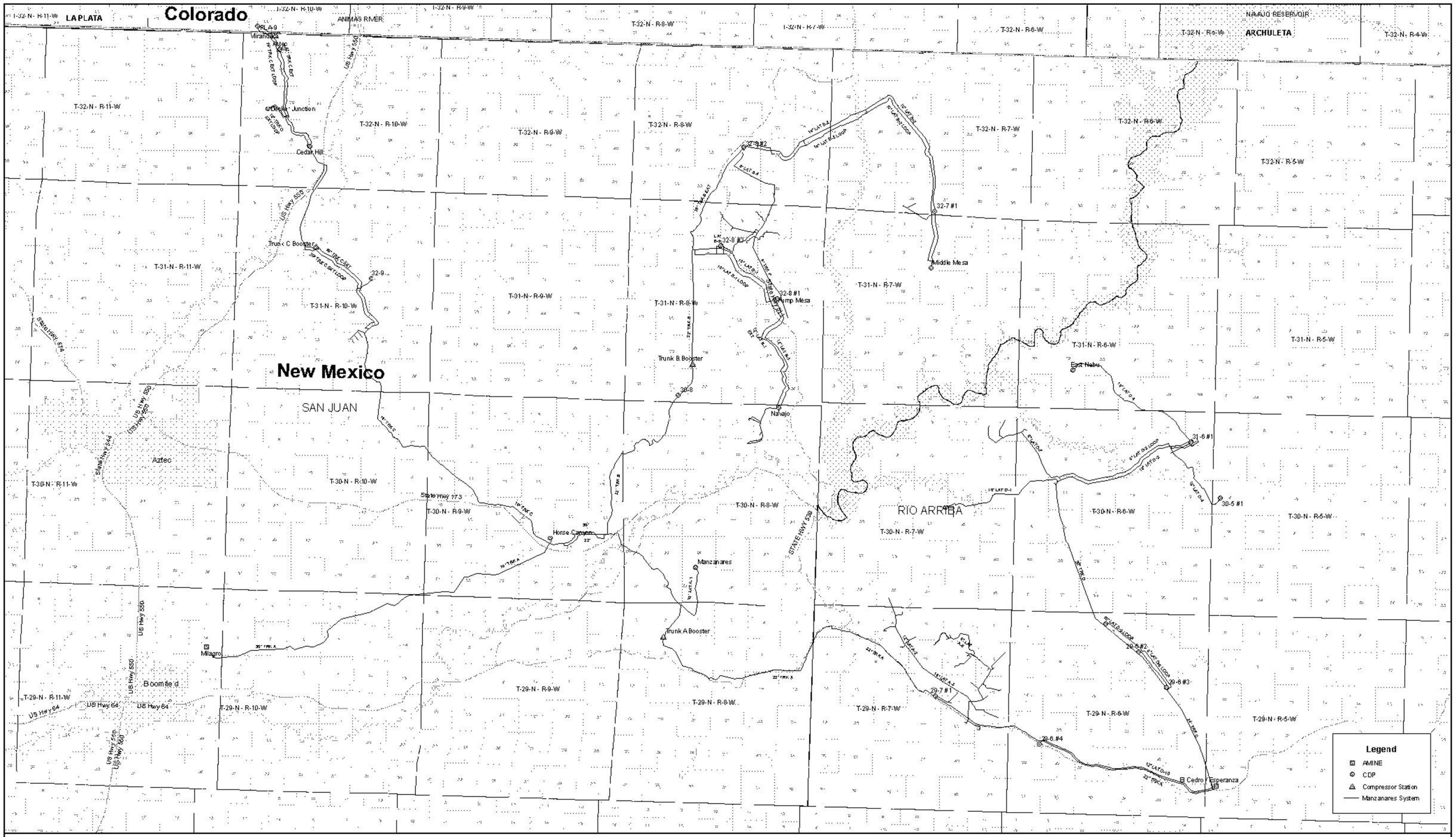
Sergey Sologub
4/21/2010

For Year 2002

1. Determine Changes in Assets for each year by Service Date. Filter out later years	☐ Compressor Asset Schedule	☐ Dehydrator Asset Schedule	☐ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☐ Cost Workpaper
2. Make changes to depreciation schedules	☐ Compressor Asset Schedule	☐ Dehydrator Asset Schedule	☐ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☐ Cost Workpaper
3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed)	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
4. Recalculate monthly expenses	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
5. Update Depreciation and ROI by equipment wp, compressors and dehydrators	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper

For Year 2003

1. Determine Changes in Assets for each year by Service Date. Filter out later years	☐ Compressor Asset Schedule	☐ Dehydrator Asset Schedule	☐ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☐ Cost Workpaper
2. Make changes to depreciation schedules	☐ Compressor Asset Schedule	☐ Dehydrator Asset Schedule	☐ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☐ Cost Workpaper
3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed). Adjust ROI for date new asset placed in service (B)(4) (B)(4) (B)(7)(e) BBB rate 1/2003 and 180 CFR 206.157 B2 (v) 2003. Rate of return must be the Standard & Poor's BBB bond rateing (no additional adjustment)	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
4. Recalculate monthly expenses	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
5. Update Depreciation and ROI by equipment wp, compressors and dehydrators	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper



Manzanares System Map

Williams

2/14/2008 Arl
T:\MSD\Tech Justin\Exhibit\FCA System\Manzanares System.mxd

Williams Metered Data - January 2006

		Meter			Avg Press	

(B)(4)
(B)(7)(e)

(B)(7)(e)

Williams Metered Data - January 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - January 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - January 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - January 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - July 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - July 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - July 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - July 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

Williams Metered Data - July 2006

Meter ID	Station Name	Meter Purpose	MCF	DTH	Avg Press PSIA	CO2

(B)(4)

(B)(7)(e)

ConocoPhillips

Global Financial Services – Upstream
1110K Plaza Office Building
Bartlesville, OK 74004

September 25, 2009

BY UNITED PARCEL SERVICE

State of New Mexico
Taxation and Revenue Department
Audit and Compliance Division
Oil & Gas Bureau
Attention: Jack Lougee
5301 Central Avenue, Ste 300
Albuquerque, NM 87108

Re: Audit Issue Letter dated July 29, 2009
Case Control Number: CCN 08-00836.003

Dear Mr. Lougee:

ConocoPhillips Company (COPC) received the referenced Audit Issue Letter on July 29, 2009 (the "Letter"). A 30-day extension to respond was granted by the State of New Mexico Taxation and Revenue Department (State). The due date for this response was therefore 60 days from the date of receipt of the Letter, September 28, 2009.

The State Has Not Provided Adequate Documentation of the "Disallowable" Percentages:

The Letter states that New Mexico has done an analysis of the costs on the Manzanares system from entry points to the inlet of the treating facility in order to determine the costs that are being disallowed. (Letter, Page 2) However, the Letter did not include any of this analysis or the supporting data for COPC's review. Without seeing the information supporting the State's conclusions, including what was received from Williams, all information received from the MMS guiding the State's calculations, and all of the State's calculations to arrive at the allowable and disallowable percentages, COPC cannot make a meaningful evaluation of the accuracy of the Letters' alleged underpaid royalty value. COPC requests that all the available information received that supports the calculation of the "disallowable" percentages be provided for its review.

In addition, while the Letter acknowledges that gas enters the Manzanares system at different locations, it appears that only one fixed disallowable rate per sample month has been calculated regardless of the entry point. This single rate is then being applied to gas from all entry points. Again, without full disclosure of the documentation supporting the calculation, COPC cannot make a determination of the accuracy of such application.

(B)(5)
(B)(7)(e)

Analysis of Schedules Provided by the State:

The Letter is Inconsistent with Prior Agency Orders and Settlements:

Heritage Phillips and Conoco:

Before providing detailed criticisms of the schedules prepared by the State, it is important to COPC's position to understand the impact of prior agency Orders and prior Settlement Agreements on the issues presented by the Letter. While COPC disputes that it has underpaid any royalties pursuant to the Letter, it is its position that the issues presented by the Letter are inconsistent with prior Orders on these issues; (B)(4) and is inconsistent with compliance reviews and audits conducted (B)(4)

The prior Orders related to Phillips Petroleum Co. are dated September 30, 1999 and March 14, 2001. The Orders covered the same issues for different time periods. The March 14 Order stated:

> "To identify systemic problems, the State performed a review of all Phillips' coalbed methane producing Federal units in New Mexico to determine whether additional royalties are due on Federal Leases..."
>
> "MMS requires that the royalty value cannot be reduced, either directly or indirectly, for the costs of placing coalbed methane in marketable condition."
>
> "The State based its findings and related calculations on the current application of 30 CFR 206 and related MMS policy and guidance documents...."
>
> "The documents identified above support the basis that MMS grants transportation allowances for the reasonable, actual and necessary costs of transporting the coalbed methane from the royalty measurement point (either the well or central delivery point) to the point of sale remote from the lease. The transportation allowance allocated to coalbed methane is calculated in accordance with 30 CFR 206.156 and 206.157."

See Exhibit A.

The Orders and the underlying audit on which they were based were to determine the disallowed costs related to the "marketable condition" rule as it related to coalbed methane. **The contracts under which the coalbed methane was transported for the periods covered by the Orders are the same contracts being audited currently.** It is interesting to note that for the period covered by the Orders, the State did not take issue with the compression costs included in the contract rate. This is because such compression has always been recognized as being included in the "actual and necessary costs of transporting" the gas to a "point of sale remote from the lease". Even the guidance from the MMS acknowledged acceptance of these compression costs. (See, discussion at page 8.)

On April 14, 1997 and October 30, 1998 the State supplemented and served an Issue Letter on Conoco (Conoco Issue Letter) related to alleged underpayments of royalties on coalbed methane produced from the same area at issue in the Letter. The Conoco Issue Letter raised the same issues concerning the deductibility of transportation costs based upon application of the marketable condition rule. See Exhibits B and C.

(B)(4) (B)(4)

(B)(4)

(B)(5)

(B)(7)(e)

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(B)(4)

Heritage Burlington:

(B)(4)

(B)(4)

(B)(4)

Specific Comments Concerning the State's Schedules:

1. Monetary Transportation Charges

The State has attempted to determine a disallowed rate for field transportation, which it applied to the volume it calculated as going through Milagro for each unit. The State also appears to have attempted to take into account a portion of the value of the field transportation that the three companies had already excluded. The amount already excluded was determined in a manner consistent with previous orders on this issue (B)(4) Although the State attempted to take this into account, the calculations were incorrect. The basis of the charges excluded by Phillips Petroleum Company (Phillips) and Conoco, Inc (Conoco) related to non-deductible field transportation costs used the formula: Williams Manzanares field transportation charges times (B)(4) Similarly Burlington Resources (Burlington) calculated (B)(4) disallowed transportation cost using the formula: Williams' transportation charge times These basic formulas were created and used by the State in the previous (B)(4) audits and MMS Orders discussed above. In the Letter the State is only acknowledging of these charges in their calculations. By using a "disallowed rate" times a volume that does not take into account charges not taken by the companies, the State has overstated the alleged additional royalties due.

Consistent with the previous orders (B)(4) COPC (Phillips and Conoco) and Burlington have utilized the same formulas used by the government to support the various Orders for periods after the dates of (B)(4) This practice was confirmed without issue for the Phillips properties by an informal review done by State of New Mexico Taxation and Revenue Department in August of 2006, and for the Conoco properties in a 2003 audit.

and only the parts use to fuel
include in the total Allowable

2. Transportation Fuel charges

The State has also attempted to determine a disallowed rate for field fuel. Although sufficient details have not been provided, it appears that the State did not attempt to take into account the value of the fuel that the three companies had already excluded, in accordance with the methodology used in the previous audits and Orders. The basis of the previous Order's calculation of the Phillips disallowed "marketable condition" fuel costs w(B)(4)e Williams Manzanares fuel volume times the weighted average price times (B)(4) Conoco's previous Order disallowed a volume of fuel equal to the Williams Manzanares fuel volume times (B)(4) Burlington's previous O(B)(4)calculated a disallowed fuel volume that excluded the total system fuel times (B)(4) These basic formu(B)(4)were used by all three companies for the audit periods not covered by the (B)(4) By using a "disallowed rate" times a volume that does not take into account the rate already not taken by the three companies, the State has overstated the alleged additional royalties due.

6

Consistent with the previous Orders and the relev(B)(4)COPC (Phillips and Conoco) and Burlington utilized the same formulas used by the government to support the various Orders for periods after the dates of the(B)(4) This practice was confirmed without issue for the Phillips properties by an informal review done by State of New Mexico Taxation and Revenue Department in August of 2006 and for Conoco properties in a 2003 audit.

3. Infill Well Credit

7

(B)(4)

(B)(4)

4. 103 Invoice Fee Discount

8

(B)(4)

(B)(4)

5. Coalbed Methane Reporting

A further complexity is caused by the MMS requiring that all coalbed methane gas be reported as Product Code 39. As a result, the unprocessed royalties related to Williams connected wells and the processed residue royalties related to Enterprise roll up on the MMS 2014 reports. The fully allowable mainline transportation is also in the MMS 2014 transportation column for Phillips and Conoco properties.

6. Contract Rates

In reviewing the audit schedules, it appears that the auditor has used a number of incorrect contract rates. For example, for both Phillips and Conoco fuel calculations, the auditor used a (B)(4) (B)(4) Conoco contract rate and should be applied to the Conoco 2014 volumes. Similar problems were seen on the Burlington rates and percentages, and on the field transportation rates used for all three companies. Attached are schedules that contain the correct rates. The rates that need to be

changed are denoted by borders around the rate. Copies of the invoices supporting the actual rates are also enclosed.

7. CO_2% Issues

The auditor used the CO2% for the 32-9 Fruitland Coal CDP for the 31-6 unit calculations. Each unit has a different CO2 percentage, and the calculations should be distinct.

8. Milagro/Manzanares Treating Cost Allocations

In preparing the calculations of the alleged underpayment of royalties, the Audit Team utilized annual percentages for treating and gathering. Attached as Exhibit G is an email note from a representative of the MMS dated July 7, 2008 (forwarded September 11, 2009) transmitting a spreadsheet containing the percentages for 2007-2009. In reviewing this schedule it was concluded that the audit team incorrectly applied the 2003 percentage splits to calendar year 2004 and the 2004 percentage splits to calendar year 2005. The impact of this error increased the alleged underpayment of royalty.

While COPC categorically disagrees that the compression at issue is subject to the "marketable condition rule", it believes that the methodology used by the State in the Letter is flawed. Any methodology would have to account for all of the above discrepancies and take into account the different practices of the three different companies. By way of example only, correcting the State's schedules reduces the amount due pursuant to the Letter to $125,793.38. See Exhibit H.

The Basis of the State's Determination and COPC's Response:

It is undisputed that the applicable regulations provide that costs associated with transportation and processing are deductible from royalty (30 CFR §§206.54(a); 206.153; 206.157). In addition it is also true that costs to make production marketable are not chargeable to royalty 30 CFR §206.152(i). That said, the State has provided absolutely no detail to support their contention that the rate they are attempting to disallow is a cost to place the gas in "marketable condition" versus a transportation cost. Merely stating that it is does not make it fact. In *Beartooth Oil & Gas Co. vs. Lujan, CV 92-99-BLG-RWA (September 22, 1993),* the MMS attempted to assess additional royalties related to the compression Mesa deducted in the pricing formula based on the "marketable condition" rule. The court granted Beartooth's appeal, ruling that the IBLA's attempt to adopt the position that compressed gas is always unmarketable prior to compression was wrong and was not supported by the regulations or the case law. The court stated that compression can be performed for a variety of reasons, and that the IBLA did not explain why the compression the MMS attempted to disallow was a marketing cost versus a transportation cost. The State has simply said they are not allowed, without providing any backup to that contention. Without adequate documentation proving the issue, COPC cannot agree to the contention that any of the Williams Field Services charges are related to "marketable condition".

The Letter appears to be primarily based on an interpretation of the regulations concerning the marketable condition rule and the deductibility of charges related to the transporting of gas downstream from the royalty measurement point. These expenses and charges have always been deductible as a cost of transportation. *See, e.g. Amoco Production v. Watson, 410 F.3d 722, 726 (D.C. Circuit2003)("The regulations allow lessees to deduct from gross proceeds costs directly related to transporting gas...");* *Snyder Oil Corp. MMS-92-0500-O&G at 11(1996); Shell Offshore Inc.*, 142 IBLA 71 (December 18, 1997) and *Phillips Petroleum Company*, 109 IBLA 4 (1989).

Phillips Petroleum Co. ("Phillips") dealt with a situation where Phillips included costs of gathering and compressing unprocessed gas in order to deliver the gas from the wellhead to the Douglas, Lee or Lusk plants in the calculation of the processing allowance. The IBLA stated that the costs of gathering and compressing the unprocessed gas in order to deliver it to the plants "were not incurred in order to make the gas pipeline quality; rather they were expended to move the wet gas from the wellhead to the processing plant". It further stated that MMS basically agreed that the Government royalty was to bear its proportionate share of such costs, but that it was more appropriately a transportation allowance. The decision holds that compression to get the gas to the plants is a cost the government was to bear. The case was remanded to the MMS for determination as to the reasonable amount of the compression and gathering expenses that were transportation. .

Further support is found in *Exxon*, 118 IBLA 221(1991). In this case the MMS contended that dehydration charges were not deductible. Exxon's raw high CO2 gas was produced from unit wells, gathered in the field and dehydrated at a central dehydration facility located outside the units. The dried gas stream was then transported from the dehydration facility through approximately 40 miles of feed gas pipeline to the Shute Creek gas processing plant for NGL extraction. The MMS disallowed Exxon's request to deduct the dehydration facilities and the cost of transporting the raw gas stream, claiming these were done to put the gas in "marketable condition". The IBLA determined that Exxon's dehydration of the raw sour gas stream at its central dehydration facility was not performed to satisfy market specifications but rather was an integral cost of transportation to maintain the integrity of the pipeline. Exxon's **purpose** in dehydrating the raw sour gas stream was the consideration. The IBLA reversed the Director's decision insofar as it denied Exxon a transportation allowance for dehydration.

Phillips and *Beartooth* both stand for the proposition that compression is not automatically non-deductible, and may be considered part of the transportation expense. *Exxon* establishes that the MMS must examine the purpose behind a service before determining whether it is properly included in an allowance calculation.

Further support for COPC's position is found in the Dear Operator/Payor letter dated April 22, 1996 written by Robert E. Brown, the Acting Associate Director for Royalty Management, United States Department of the Interior. The MMS letter dealt with questions from producers in the vicinity of the San Juan basin on how to report and pay royalties on coalbed methane. The guidance is very clear as to what the costs of placing production in "marketable condition" include. In the "Determining Allowable Deductions from Value" section, the letter states as follows:

> "You can include costs of dehydration occurring after metering at the royalty measurement point in your transportation allowance, but you cannot deduct costs of dehydration occurring at the wellhead. You can include costs of compression occurring downstream of the royalty measurement point, to the extent the compression is necessary for transportation. This includes compression at the CDP and in the transportation system to the CO2 removal facility. You cannot include those compression costs associated with production operations". [Emphasis added]

Based on the Dear Payor letter, as recently as 1996, the MMS obviously considered the compression costs incurred "at the CDP" and through the transportation system to the CO2 removal facility to be allowable costs unrelated to "marketable condition" for coalbed methane . The State cited this guidance letter in the previous Orders and Issue letters. For those documents, the State followed the MMS guidance and did not take issue with the compression bundled into the Williams fees.

COPC Conclusion:

The Letter's conclusion is contrary to the regulations, prior agency decisions and agency directives that have been relied on by COPC and is therefore arbitrary and capricious. Further, the State provided no documentation to support their conclusions that the charges they are attempting to disallow relate in any way to "marketable condition" of the gas.

If you have any questions, please respond in writing to the address below.

Sincerely,

Tana Tobias
ConocoPhillips
Advisor, Regulatory Audit & Compliance
1110K Plaza Office Building
Bartlesville, OK 74004
(918) 661-1697
Tana.L.Tobias@conocophillips.com

Enclosure

Manzanares System Costs

YEAR	2003	2004	2005	2006	2007
Allowed Costs	(B)(7)(e)		(B)(4)		
Disallowed Costs					
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed			(B)(4)		(B)(7)(e)
Fuel Disallowed					

Manzanares System Cost Allowed-Disallowed percentages By Year 5-20-09 Revised percentages

These are the January S&P BBB bond rates which you need for the unbundling project. These are for our use on this project and cannot be distributed.

1/2000	8.81
1/2001	8.29
1/2002	8.26
1/2003	7.19
1/2004	6.40
1/2005	5.65
1/2006	6.09
1/2007	6.47

Manzanares System

PURPOSE: To document the transportation of gas through the Manzanares System. To determine a percentage to unbundle the fees the Operator charges to Producers in order to determine the non-allowed costs associated with marketable condition.

- 30 CFR § 206.152(i)(2007) states:
  The lessee must place gas in marketable condition and market the gas for the mutual benefit of the lessee and the lessor at no cost to the Federal Government.
- If a lessee sells "unmarketable" gas at a lower cost, the gross proceeds for purposes of royalty calculation must be "increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. 30 CFR § 206.152 (i)2007
- 30 CFR § 206.153 (i)2007
  The lessee must place residue gas and gas plant products in marketable condition and market the residue gas and gas plant products for the mutual benefit of the lessee and lessor at not cost to the federal Government.

SOURCE: **Documents provided by Operator:**

- Manzanares system Map that shows the major central delivery points (CDP), compressors, and plant sites
- For 2006 – depreciation schedules of
  - Compressors
  - Dehydrators
  - Pipeline
- Williams Financial Data and typical equipment expenses
  - Summary of yearly operating and maintenance expenses for the following years: 2002, 2003, 2004, 2005 and 2006
  - Summary of typical monthly expenses for equipment rental, operating and maintenance and fuel for the following year: 2006
- Equipment listing and locations that list models, sizes
  - Compressors
  - Dehydrators
- Schematic of Milagro Plant and Esperanza Plant
- Listing of Manzanares shippers from 2003 through 2007 (we requested a listing of producers [redacted] (B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

Prepared by: Julia Maddux Date: 9/30/2008
Reviewed by: _____ Date: _____
Work paper: Manzanares Cost_____

- Williams Manzanares Fuel and Loss for January through July 2006
- List of metered points including volumetric and properties data for January 2006 and July 2006 to provide winter and summer representation. The report provides the meter number, meter name, meter purpose, monthly volume, monthly avg. pressure, and the $C0_2$ content of the gas.
- Fuel usage report. The report lists all the metered fuel points across the gathering system and treating plants.

SCOPE: This analysis is limited to the Manzanares System for the year 2006.

BACKGROUND: The Manzanares System is owned by Williams Partners LP. It is located in Northwestern New Mexico. Williams Partners L.P. owns 100% of the interest in Four Corners. In an acquisition completed in December 2006 they acquired the remaining 74.9 percent interest in Williams Four Corners LLC from Williams. Williams Partners L.P. primarily gathers, transports and processes natural gas and fractionates and stores natural gas liquids. Williams maintains operational control of Four Corners.

Four Corners owns gathering, processing and treating assets in the San Juan Basin in New Mexico. Producers contracts are with Williams Field Service. The Milagro and Esperanza natural gas treating plants are designed to remove $C0_2$ from up to 750 million cubic feet of natural gas per day.

Transportation costs and processing costs are allowable deductions. However, service providers generally do not separate the deductible costs and non-deductible costs. The State of New Mexico and members of MMS toured the Milagro Plant/Manzanares system on July 17, 2007. The purpose of the tour was to gain an understanding of the Manzanares system, the functions of the plant and to understand the properties and processes of gas going through the system in order to determine the point at which gas entering the pipeline is at marketable condition. An understanding of the system is needed in order to assist auditors in unbundling the fees to separate the non-deductible cost of placing production into marketable condition.

PROCEDURE: Following the completion of the plant/system tour auditors working with MMS prepared a system diagram. From the information obtained through the tour and subsequent data requests MMS determined the allowed and non-allowed portions of the system. We used 30 CFR § 206.157(b) 2006, actual cost regulations for our methodology.

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

CONCLUSION:

The allowable costs for the Manzanares system are the costs associated with the pipeline. The non-allowable costs are costs associated with compressors and dehydrators. For 2006, Producers will be allowed to deduct (B)(4) (B)(7)(e) percent of costs charged by the Operator. The disallowed portion for 2006 resulted in (B)(4) (B)(7)(e) percent of the costs.

Producers are charged volumetrically for fuel. For 2006 Producers will be allowed to deduct (B)(4) (B)(7)(e) percent of the fuel cost, (B)(4) (B)(7)(e) percent disallowed.

Julia Maddux: Date: 1/8/2009
Reveiwed by: ___ Date: ___
Work paper : Manzanares

CONCLUSION:

The allowable costs for the Manzanares system are the costs associated with the pipeline. The non-allowable costs are costs associated with compressors and dehydrators. For 2006, Producers will be allowed to deduct (B)(4) percent of costs charged by the Operator. The disallowed portion for 2006 resulted in (B)(4) (B)(7)(e) percent of the costs.

(B)(7)(e)

Chad R. Bracher
Commercial Development
Midstream
One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

CONFIDENTIAL

VIA FEDEX

January 28, 2009

Julia Maddox
Federal Royalty Auditor
State of New Mexico
Taxation and Revenue Department
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: Requests for Information

Dear Ms. Maddux:

Enclosed on the USB flash drive please find the information requested of Williams by the State of New Mexico, on behalf of the Minerals Management Service, in your letters dated August 26, 2008, September 10, 2008, October 17, 2008, and January 9, 2009. The information in the enclosed files includes:

Plant Schematics
Included are non-technical schematics for each plant. (B)(4) (B)(7)(e)

List of metered points including volumetric and properties data
We have included data for the months of January 2006 and July 2006 to provide winter and summer representation. The reports provide the meter number, meter name, meter purpose, monthly volume, monthly average pressure, and the CO_2 content of the gas. For the meters designated with the "X-Haul" purpose, these are metered points where volume from one Williams' gathering system crosses over to another Williams' gathering system.

Fuel usage report
The fuel usage reports enclosed lists all of the metered fuel points across the gathering systems and plants.

List of Compressors
The lists enclosed represent ownership and specifications of the compressors at each site. Those compressors highlighted in red represent those units that are physically in place today but were not in service in 2006. The units are either owned by Williams or Williams' compression service provider, Exterran.

List of Dehydrators
Here we have listed the dehydration units physically in place, the manufacturer and the size of each unit.

Financial data related to gathering systems and plants
The data includes total annual O&M and G&A for 2002-2007, and also includes expenses for each equipment type. [redacted] (B)(4) (B)(7)(e)

The previously submitted O&M report for the Manzanares System has been updated to now include 2007 total annual O&M and G&A. It was additionally requested of Williams to provide the changes in rental fees from the previously submitted 2006 figures. There have been [redacted] (B)(4) (B)(7)(e) Also, a file has been included to show the additions and deletions to the Manzanares depreciation schedule for 2005 and 2007. Asset valuation prior to 2005 was done through a separate system and would require significant time and effort to report, and therefore has not been included.

System Maps
Enlarged system map has been provided to show locations.

Comments for Manzanares System Unbundling Costs
Williams was also asked to provide comments for the final draft of the Manzanares System Unbundling Costs schedule provide January 9, 2009. Included on the flash drive is a marked-up version showing our comments. Additionally, per our telephone conversion January 26, 2009, we agreed that the [redacted] (B)(4) (B)(7)(e)

All of the information contained is to be considered proprietary and confidential, and is meant only to be used for the purpose of facilitating the audit involving allowable costs related to Williams' bundled services. We ask that you please maintain the confidentiality of all information provided.

Should you have questions related to the enclosed data please contact me at (918) 573-3138. Charlie Brown and I would also be willing to meet with you if further information or explanation is needed.

Best regards,

Chad Bracher

Chad Bracher
Commercial Development

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

DEC 10 2008

MRM/FEDCAM/
MS 392B2

Mr. David Ferguson, Deputy Director
Audit & Compliance Division,
Oil & Gas Bureau, State of New Mexico
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

Dear Mr. Ferguson:

I want to take this opportunity to recognize the valuable contributions of Mr. Jack Lougee and Ms. Julia Maddux in developing a process to unbundle allowance fees deducted from Federal royalties. The Minerals Management Service (MMS) in conjunction with the states is working towards determining which portion of bundled pipeline transportation and gas plant processing fees are allowable deductions from Federal royalties. Mr. Lougee's and Ms Maddux's work over the last 18 months brings early certainty of correct Federal royalty values and will reduce the time, effort and expense for both the payors and the Federal government in the future. This improved unbundling process was developed for Federal natural gas production in the San Juan Basin and is being used to unbundle similar fees in other areas of New Mexico and throughout the country.

Both individuals have weathered the difficult times in acquiring data from less than cooperative pipeline and gas processing plant owners. They exhibit excellent skills in obtaining relevant data from company representatives during their investigation of pipelines and plants; both in the field and in conferences with companies. They continue to maintain communication with the MMS office in Denver and consistently report their progress in building the data to support the audit.

Mr. Lougee conducted a thorough research of U.S. Government legal cases involving natural gas production and, transportation and processing allowances. This research has provided a foundation in applying the applicable case law to the situations being audited in the San Juan Basin.

TAKE PRIDE IN AMERICA

State of New Mexico Oil & Gas Bureau questions for the MMS based on the Devon decision:

1. Is typical field compression allowed?
2. Is typical field dehydration allowed?
3. Are the C1 & C2 compressors at the inlet to Chaco plant allowed?
4. Are the A & B compressors at Chaco plant allowed?
5. Is the plant dehydration allowed?
6. Are the residue compressors after the Cryogenic processing plant allowed?

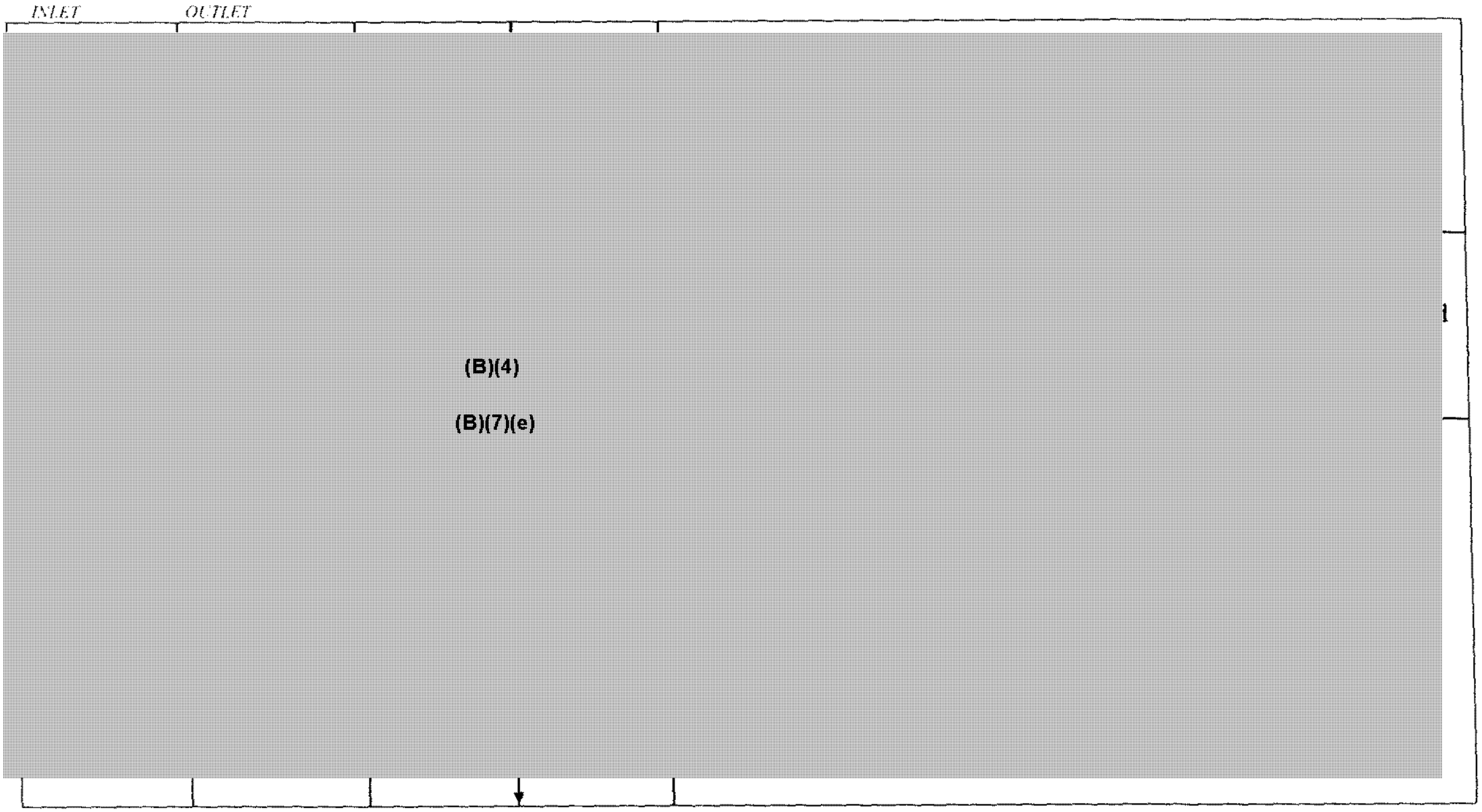
ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

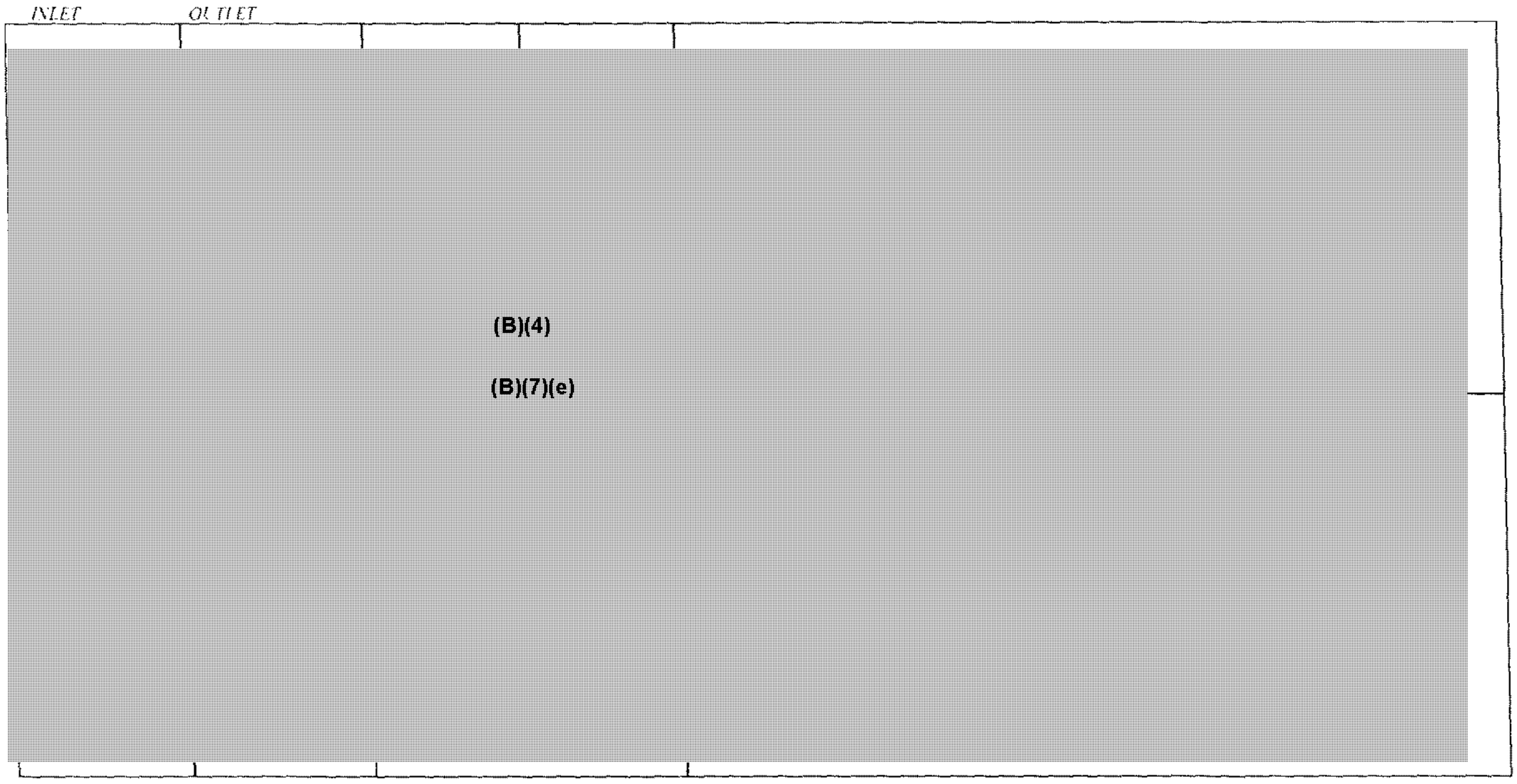
(B)(4)

(B)(7)(e)

ENTERPRISE GATHERING SYSTEM



ENTERPRISE GATHERING SYSTEM



INLET *OUTLET*

ADDITIONAL DISCUSSION

TYPICAL FIELD COMPRESSOR STATIONS

(B)(4)

(B)(7)(e)

Plan:

Determination of marketable condition point

Syst

Total yearly (O)
+ Allocated Decu
Operational (R)

n equipment
pecific points

Dete
equi

not allowed

Req

Prepare schedules and write-ups

Disseminated percentages to auditors

Auditor prepares issue letters and collects money

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

State of New Mexico Oil & Gas Bureau questions for the MMS based on the Devon decision:

1. Is typical field compression at CDP allowed?
2. Is tyical field dehydration at CDP allowed?
3. Is compression at the Booster Stations allowed?
4. Is compression at Milagro plant allowed?
5. Is dehydration at Milagro plant allowed?

MANZANARES GATHERING SYSTEM

	(B)(4) (B)(7)(e)		

Bulk File# _____

Preparer/Date: **MAM 11/21/2008**
Reviewer/Date:
Work Paper Number: **E2**

(B)(4)

(B)(7)(e)

Bulk File# _____

Preparer Date: **MAM 11/21/2008**
Reviewer Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

(B)(7)(e)

(B)(4)

Bulk File# _____

Preparer Date: **MAM 11/21/2008**
Reviewer Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

TYPICAL FIELD STATIONS:			
		(B)(7)(e) (B)(4)	

Bulk File# _____

Preparer/Date: **MAM 11/21/2008**
Reviewer/Date:
Work Paper Number: **E2**

Maddux, Julia, TRD

From: Keeton, Geary [Geary.Keeton@mms.gov]
Sent: Sunday, November 16, 2008 3:53 PM
To: Williams, Mary; Lougee, Jack R., TRD; Sologub, Sergey, TRD; Maddux, Julia, TRD; Ernest, Mike
Cc: Sant, Donald; Severson, Valdean H., TRD
Subject: Enterprise Requests for Information

I just received a call from Poe Leggette. A letter is on the way to Mary advising us that they won't be providing any cost information to New Mexico Audit that could be used for the purpose it was requested; i.e., unbundling the fees. When we get it, I assume you'd all agree that I should proceed with the next step which is to (B)(5) (B)(7)(e) (B)(7)(e)

GK

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

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New Mexico
Taxation and Revenue Department

Bill Richardson
Governor

Rick Homans
Cabinet Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
(505) 827-0341
Administrative Services
(505) 827-0369
Audit and Compliance
(505) 827-0900
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

November 14, 2008

Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

REQUEST FOR GUIDANCE

The State of New Mexico (State) requests clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas transported through the Manazanares Gathering System.

Respecfully,

Jack Lougee
Audit Supervisor
State New Mexico

Enclosure: Manzanares Gathering System diagram

Our mailing address is:

State of New Mexico
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program 5301 Central Av NE 3rd Floor
P.O. Box 8485
Albuquerque, NM 87198

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

State of New Mexico Oil & Gas Bureau questions for the MMS based on the Devon decision:

1. Is typical field compression at CDP allowed?
2. Is tyical field dehydration at CDP allowed?
3. Is compression at the Booster Stations allowed?
4. Is Compression at El Cedro plant allowed?
5. Is dehydration at El Cedro plant allowed?
6. Is compression at Milagro plant allowed?
7. Is dehydration at Milagro plant allowed?

MANZANARES GATHERING SYSTEM

(B)(7)(e)
(B)(4)

Bulk File# _____

Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

(B)(4)

(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

(B)(7)(e)

(B)(4)

Bulk File# _____

Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

TYPICAL FIELD STATIONS:

(B)(7)(e)

(B)(4)

Bulk File# _____

Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

Maddux, Julia, TRD

Subject: Meet with Williams on Manzanares

Start: Fri 11/14/2008 10:00 AM
End: Fri 11/14/2008 10:30 AM

Recurrence: (none)

Chad & Charlie will call on Friday 14th to discuss revised spreadsheet.

Had teleconference with Charlie & Chad, after studying our spreadsheet they believe that the operational costs are too low. They need to go back and work on the allocation of the costs more approriately for O & M.

They think they could have this done by December 15 or before.

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Tenative dates for meeting depending on whether work is completed and schedules.

December 4th, 5th

Or

December 17th

Hold them that Jack will be back on Monday & we will call them.

Standard and Poor[illegible]rporate Government
Bond Yield Index for
Industrial Triple B (BBB) 15 Year Bond Rates

Year	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1988	10.38	10.11	10.30	10.60	10.87	10.70	10.71	10.83	10.56	10.46	10.44	10.24
1989	10.19	10.24	10.46	10.34	10.15	9.68	9.67	9.74	9.79	9.71	9.58	9.61
1990	9.88	10.15	10.19	10.29	10.30	10.05	10.07	10.33	10.53	10.35	10.03	9.85
1991	9.88	9.61	9.82	9.67	9.61	9.80	9.74	9.44	9.27	9.22	9.25	9.07
1992	9.25	9.44	9.47	9.42	9.25	9.20	9.01	8.89	8.98	9.13	9.14	8.99
1993	8.94	8.81	8.73	8.79	8.84	8.72	8.63	8.45	8.01	8.16	8.27	8.28
1994	8.28	8.19	8.35	8.57	8.79	8.83	9.03	8.92	9.27	9.55	9.67	9.47
1995	9.44	9.23	8.98	8.78	8.36	8.17	8.28	8.37	8.16	8.08	8.01	7.87
1996	6.99	7.10	7.70	7.95	8.08	8.21	8.11	7.87	8.07	7.72	7.39	7.50
1997	7.73	7.54	7.84	7.99	7.93	7.73	7.45	7.49	7.38	7.21	7.19	7.19
1998	7.18	7.09	7.13	7.13	7.12	6.99	7.05	7.03	6.96	7.16	7.46	7.26
1999	7.36	7.46	7.58	7.43	7.69	8.08	8.04	8.38	8.50	8.64	8.44	8.64
2000	8.81	8.58	8.66	8.75	9.31	8.95	8.83	8.71	8.84	8.70	8.63	8.44
2001	8.29	8.26	8.27	8.44	8.53	8.34	8.36	8.16	8.18	8.13	8.14	8.41
2002	8.26	8.13	8.31	8.19	8.11	7.89	7.93	7.71	7.41	7.71	7.43	7.30
2003	7.19	7.09	7.12	7.05	6.57	6.40	6.85	7.32	7.07	7.00	6.84	6.70
2004	6.40	6.43	6.23	6.84	7.37	7.14	7.22	6.99	6.82	6.34	5.80	5.75
2005	5.65	5.51	5.80	5.84	5.82	5.63	5.68	5.76	5.73	6.05	6.18	6.10
2006	6.09	6.13	6.27	6.73	6.80	6.85	6.85	6.66	6.53	6.56	6.37	6.28
2007	6.47	6.48	6.26	6.41	6.38	6.63	6.64	6.71	6.77	6.93	6.84	6.78
2008	6.88	7.33	7.38	7.19	7.22	7.42	7.48	7.54	7.54	8.59	9.94	9.67*
2009	9.37	9.34	9.61	9.36	8.80							

Beginning with September 2007, the data provided by S&P used Wednesday as the close of each week.
All preceding months and years, the weekly average was calculated with Friday as the close of the week.
Calculations by individual companies may vary from above stated averages, due to different day used as close of week by SP for subscriptions.

* Per S&P - Weekly calculations were only made for 1st 3 weeks of December. No bond rate yields for Dec 22-Dec 31 were posted.

C:\Documents and Settings\JuliaM\My Documents\1138 Cost Project\BBB Rates\BBB thru May 2009 7/9/2009

Standard and Poor's, BBB, Industrial, 15 year, Average

September	2008
9/3/2008	7.43
9/10/2008	7.34
9/14/2008	7.51
9/24/2008	7.86
Total	30.14
Monthly Avg.	**7.54**

October	2008
10/1/2008	8.02
10/8/2008	8.04
10/15/2008	8.91
10/22/2008	9.4
10/29/2008	9.75
Total	34.37
Monthly Avg.	**8.59**

November	2008
11/5/2008	10
11/12/2008	10.05
11/19/2008	9.8
11/26/2008	9.92
Total	39.77
Monthly Avg.	**9.94**

December	2008
12/3/2008	9.79
12/10/2008	9.74
12/17/2008	9.48
12/24/2008 n/a	
12/31/2008 n/a	
Total	29.01
Monthly Avg.	**9.67** *

January	2009
1/7/2009	9.54
1/14/2009	9.27
1/21/2009	9.27
1/28/2009	9.38
Total	37.46
Monthly Avg.	**9.37**

February	2009
2/4/2009	9.47
2/11/2009	9.35
2/18/2009	9.23
2/25/2009	9.32
Total	37.37
Monthly Avg.	**9.34**

March	2009
3/4/2009	9.46
3/11/2009	9.62
3/18/2009	9.79
3/25/2009	9.55
Total	38.42
Monthly Avg.	**9.61**

April	2009
4/1/2009	9.45
4/8/2009	9.55
4/15/2009	9.37
4/22/2009	9.23
4/29/2009	9.18
	46.78
	9.36

May	2009
5/6/2009	8.83
5/13/2009	8.66
5/20/2009	8.66
5/27/2009	9.04
Total	35.19
Monthly Avg.	**8.80**

Note:
Beginning with September 2007 data. S&P is providing information based on Wednesday as the close of the week as opposed to the historical data previously provided which used Friday as the close date of the week.
All historical data now provided by S&P for all prior years uses Wednesday as the close of the week.
This change in day can cause slight differences in rates already calculated by MMS and those calculated by companies if the company uses data which S&P now provides. 3/6/07 Patricia Kann

* Per S&P - Weekly calculations were only made for 1st 3 weeks of December. No bond rate yields for Dec 22-Dec 31 were posted.

For Year 2003

1. Determine Changes in Assets for each year by Service Date. Filter out later years	☑ Compressor Asset Schedule	☑ Dehydrator Asset Schedule	☑ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☑ Cost Workpaper
2. Make changes to depreciation schedules	☑ Compressor Asset Schedule	☑ Dehydrator Asset Schedule	☑ Pipeline Asset Schedule	☐ Monthly Expense workpaper	☐ Cost Workpaper
3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed)	☑ Compressor	☑ Dehydrator	☑ Pipeline	☐ Monthly Expense workpaper	☑ Cost Workpaper
4. Recalculate monthly expenses	☐ Compressor	☐ Dehydrator	☐ Pipeline	☑ Monthly Expense workpaper	☑ Cost Workpaper
5. Update Depreciation and ROI by equipment wp, compressors and dehydrators	☑ Compressor	☑ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI	☑ Compressor	☑ Dehydrator	☐ Pipeline	☑ Monthly Expense workpaper	☑ Cost Workpaper

BBB rate 1/2003 = 7.19 and 30 CFR 206.157 B2 (v) 2003. Rate of return must be the Standard & Poor's BBB bond rateing (no additional adjustment)

Allowed = (B)(4) (B)(7)(e)
Disallowed =

Fuel Allowed = (B)(4)
Fuel Disallowed = (B)(7)(e)

JPM 4/23/09

transportation contract or has no contract, including those situations where the lessee performs transportation services for itself, the transportation allowance will be based upon the lessee's reasonable actual costs as provided in this paragraph. All transportation allowances deducted under a non-arm's-length or no contract situation are subject to monitoring, review, audit, and adjustment. The lessee must claim a transportation allowance by reporting it as a separate line entry on the Form MMS–2014. When necessary or appropriate, MMS may direct a lessee to modify its estimated or actual transportation allowance deduction.

(2) The transportation allowance for non-arm's-length or no-contract situations shall be based upon the lessee's actual costs for transportation during the reporting period, including operating and maintenance expenses, overhead, and either depreciation and a return on undepreciated capital investment in accordance with paragraph (b)(2)(iv)(A) of this section, or a cost equal to the initial depreciable investment in the transportation system multiplied by a rate of return in accordance with paragraph (b)(2)(iv)(B) of this section. Allowable capital costs are generally those costs for depreciable fixed assets (including costs of delivery and installation of capital equipment) which are an integral part of the transportation system.

(i) Allowable operating expenses include: Operations supervision and engineering; operations labor; fuel; utilities; materials; ad valorem property taxes; rent; supplies; and any other directly allocable and attributable operating expense which the lessee can document.

(ii) Allowable maintenance expenses include: Maintenance of the transportation system; maintenance of equipment; maintenance labor; and other directly allocable and attributable maintenance expenses which the lessee can document.

(iii) Overhead directly attributable and allocable to the operation and maintenance of the transportation system is an allowable expense. State and Federal income taxes and severance taxes and other fees, including royalties, are not allowable expenses.

(iv) A lessee may use either depreciation or a return on depreciable capital investment. After a lessee has elected to use either method for a transportation system, the lessee may not later elect to change to the other alternative without approval of the MMS.

(A) To compute depreciation, the lessee may elect to use either a straight-line depreciation method based on the life of equipment or on the life of the reserves which the transportation system services, or a unit of production method. After an election is made, the lessee may not change methods without MMS approval. A change in ownership of a transportation system shall not alter the depreciation schedule established by the original transporter/lessee for purposes of the allowance calculation. With or without a change in ownership, a transportation system shall be depreciated only once. Equipment shall not be depreciated below a reasonable salvage value.

(B) The MMS shall allow as a cost an amount equal to the allowable initial capital investment in the transportation system multiplied by the rate of return determined pursuant to paragraph (b)(2)(v) of this section. No allowance shall be provided for depreciation. This alternative shall apply only to transportation facilities first placed in service after March 1, 1988.

(v) The rate of return must be the industrial rate associated with Standard and Poor's BBB rating. The rate of return must be the monthly average rate as published in Standard and Poor's Bond Guide for the first month for which the allowance is applicable. The rate must be redetermined at the beginning of each subsequent calendar year.

(3)(i) The deduction for transportation costs shall be determined on the basis of the lessee's cost of transporting each product through each individual transportation system. Where more than one product in a gaseous phase is transported, the allocation of costs to each of the products transported shall be made in a consistent and equitable manner in the same proportion as the ratio of the volume of each product (excluding waste products which have no value) to the volume of

2003 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression	(B)(4)	
Dehydration		
Pipeline	(B)(7)(e)	
Totals		
Cost Workpaper		
Variance		

5/2009

New Mexico Oil & Gas Bureau
265 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 5-15-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Deby				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+i)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(e) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e)														(B)(7)(e)	
(B)(4)														(B)(4)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 5-15-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)														(B)(7)(e) (B)(4)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 5-15-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel method	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(n) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)														(B)(7)(e) (B)(4)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 5-15-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(7)(e) (B)(4)	
Subtotal Dehydrators															

Allowed Costs

(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)					
					(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)			

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 5-15-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e)														(B)(4)	
(B)(4)														(B)(7)(e)	

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are

(B)(4)
(B)(7)(e)

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)
	(B)(7)(e)		(B)(7)(e)

Manzanares Compressors
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
	(B)(7)(e)	
	(B)(4)	

Manzanares Compressors
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
	[redacted]	
	(B)(4)	
	(B)(7)(e)	
	[redacted]	

Manzanares Compressors
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
	[redacted]	

(B)(4)

(B)(7)(e)

Manzanares Compressors
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
[redacted]		

(B)(4)

(B)(7)(e)

Manzanares Compressors
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
	[redacted]	
	(B)(4)	
	(B)(7)(e)	

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
Total Unidentified Location Depreciation	(B)(4)	(B)(7)(e)	
Total Unidentified Location ROI			

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)			

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)			

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)			

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)			

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	

Units	Total	Exterran	Williams
(B)(7)(e) (B)(4)			

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams
Units			
	(B)(4) (B)(7)(e)		
	Total	Exterran	Williams
Units			
	Total	Exterran	Williams
Units			
	Total	Exterran	Williams
Units	2	0	2
	Total	Exterran	Williams
Units			
	(B)(4) (B)(7)(e)		
	Total	Exterran	Williams
Units			
	Total	Exterran	Williams
	Total	Exterran	Williams
Units	1	0	1
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	
	Total	Exterran	Williams
Units	2	0	2
	Total	Exterran	Williams
Units	2	0	2

Manzanares System
As of 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams
Units			

Manzanares Compressors
As of 12-31-2003

2003 Unknown Compressor Locations from Compressor Depreciation Schedule

	Yearly Cost
(B)(7)(e)	
(B)(4)	
	#N/A
Total Unkown Depreciation	

Manzanares Compressors

As of 12-31-2003

ROI by Location

(B)(4)

(B)(7)(e)

Line	Legacy Location Description	BBB 2003 (B)(4)
[redacted]		

(B)(7)(e)

(B)(4)

2003 Compressor ROI

(B)(7)(e)

(B)(4)

2003 Compressor ROI

(B)(7)(e)

(B)(4)

2003 Compressor ROI

(B)(7)(e)

(B)(4)

2003 Compressor ROI

(B)(7)(e)

(B)(4)

2003 Compressor ROI

(B)(7)(e)

(B)(4)

Grand Total

Manzanares Compressors
As of 12-31-2003

2003 Unknown Compressor Locations ROI

(B)(4)	
(B)(7)(e)	
Total	

Unknown locations provided by Williams (Williams called these "Indirect Locations")

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total Units	c Williams
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		

(B)(4)
(B)(7)(e)

Units		Total	Williams
	(B)(4) (B)(7)(e)		

Units	Total	Williams

(B)(4)
(B)(7)(e)

Units	(B)(4) (B)(7)(e)	Total	Williams

Units	Total	Williams

(B)(4)
(B)(7)(e)

Units	Total	Williams

Units		Total	Williams
	(B)(4) (B)(7)(e)		

Units	Total	Williams

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Units	Total	Williams
(B)(4)	(B)(4)	

Units	Total	Williams
(B)(4)	(B)(7)(e)	

Units	Total	Williams
(B)(4)	(B)(4) (B)(7)(e)	

Units	Total	Williams
(B)(4)		

Units	Total	Williams
(B)(4)		

Units	Total	Williams
(B)(4)	(B)(4) (B)(7)(e)	

Units	Total	Williams
(B)(4)	(B)(4) (B)(7)(e)	

Units	Total	Williams
	(B)(7)(e)	

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(7)(e) (B)(4) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4) (B)(7)(e)	Total Dehydrators Total Dehydrators (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators

b= From Williams Asset Schedule see Capital Cost (B)(4)
Al (B)(7)(e)

Manzanares Dehydrators ROI
As of 12-31-2003

2003 ROI

(B)(7)(e)

(B)(4)

2003 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)

(B)(7)(e)

Total Unkown ROI

Manzanares Dehydrators
As of 12-31-2003

Unknown Dehydration Locations from Dehydration Depreciation Schedule 2003

	Yearly Cost
(B)(7)(e) (B)(4)	
Total Unkown Depreciation	

Manzanares Pipeline
As of 12-31-2003

k/(h/12)

Line	Legacy Location Description	Yearly Cost
	(B)(7)(e) (B)(4)	
	Grand Total	

Manzanares Pipeline
As of 12-31-2003

RDI

(r*.0719)

Line	Legacy Location Description	BBB 2003 .0719
	(B)(7)(e)	
	(B)(4)	
Grand Total		

2003 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation ROI	
Compression	(B)(4)	updated
Dehydration		updated
Pipeline		
Totals	(B)(7)(e)	
Cost Workpaper		
Variance		

Revised

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 4-23-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+i)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)														(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 4-23-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
						(B)(7)(e) (B)(4)								(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 4-22-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)														(B)(4) (B)(7)(e)	

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 4-23-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+l)	col (p) subtotal/col(p) Total	Williams 2004 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(7)(e) (B)(4)	

Allowed Costs

(B)(4)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2003
Unbundling Percentage Calculation

Disallowed Costs

Final 4-23-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel rec/fd	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h+i)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)														(B)(4)	
Grand Total															

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)
	(B)(7)(e)		(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet (B)(4)

(B)(7)(e) (B)(7)(e)

Manzanares System
As 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total Units	Exterran	Williams
Compressors			
Total Unidentified Location Depreciation	(B)(7)(e)	(B)(4)	
Total Unidentified Location ROI			

	Total	Exterran	Williams
Units			
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	
Units			
(B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)
Units			
(B)(7)(e) (B)(4)			
Units			
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	
Units			
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	
Units			
(B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)
Units			
(B)(7)(e) (B)(4)			

Manzanares System
As 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams
Units (B)(4)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(4)		(B)(4) (B)(7)(e)	
Units (B)(4)			
Units (B)(4)			
Units (B)(4)			(B)(4) (B)(7)(e)
Units (B)(4)	(B)(4) (B)(7)(e)		
Units (B)(4)		(B)(4) (B)(7)(e)	
Units (B)(4)			
Units (B)(4)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(4)			

Manzanares System
A[redacted] 12-31-2003

2003 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total	c Exterran	d Williams
Units (B)(4)	(B)(4) (B)(7)(e)		
Units (B)(4)			(B)(4) (B)(7)(e)
Units (B)(4)		(B)(4) (B)(7)(e)	
Units (B)(4)			
Units (B)(4)			
Total from Capital Costs wp	Total Compression Depreciation Yrly		
Total from Capital Costs wp	Total Compression ROI		

b= From Williams Asset Schedule see Capital Cost

2003 Compressor ROI

(B)(4)	#N/A	(B)(4)
(B)(7)(e)	#N/A	(B)(7)(e)
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
	#N/A	
#N/A Total		
Grand Total		

Manzanares Compressors
As of 12-31-2003

2003 Unknown Compressor Locations from Compressor Depreciation Schedule

	Yearly Cost
(B)(7)(e) (B)(4)	
Total Unkown Depreciation	

Manzanares Compressors
As of 12-31-2004

					In Service												
Site	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2005 Net Book Value	(b/h)=n 2004 Net Book Value	k/(h/12) Yearly Cost	(p+q) Undepreciated Bal Beginning of Year	(q* 064) BBB 2004 .0649

(B)(4)
(B)(7)(e)

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	Williams
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)		
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	
Units (B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	
Units (B)(4) (B)(7)(e)		

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	Williams
Units		
(B)(7)(e) (B)(4)		
Units		
(B)(4)	(B)(4) (B)(7)(e)	
Units		
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)
Units		
(B)(4)	(B)(4) (B)(7)(e)	
Units		
(B)(4)		
Units		
(B)(4)		(B)(4) (B)(7)(e)
Units		
(B)(4)	(B)(4) (B)(7)(e)	
Units		
(B)(7)(e) (B)(4)		
Units		

MANZANARES 2003
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

	Total Dehydration Depreciation
Total from Capital Costs wp	(B)(4) (B)(7)(e)

	Total Dehydration ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

	Total Dehydrators
Total Dehydrators	(B)(4) (B)(7)(e)

	Total Dehydrators
Total Dehydrators	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

(B)(4)

(B)(7)(e)

Manzanares Dehydrators ROI
As of 12-31-2003

2003 ROI

(B)(4)

(B)(7)(e)

Manzanares Dehydrators ROI
As of 12-31-2003

	Yearly Costs k/(h/12)	2003 ROI (B)(7)(e) (B)(4)
Legacy Location Description Total		0.00
	(B)(4) (B)(7)(e)	
Grand Total		

Manzanares Dehydrators
As of 12-31-2003

Legacy Location Description Total	Yearly Costs (B)(4) (B)(7)(e)
	0.00
(B)(4) (B)(7)(e)	
Grand Total	

Manzanares Dehydrators
As of 12-31-2003

Unknown Dehydration Locations from Dehydration Depreciation Schedule 2003

	Yearly Cost
(B)(4) (B)(7)(e)	
Total Unkown Depreciation	

Manzanares Dehydrators
As of 12-31-2003

		In Service									(k/h)+n	(k/h)+o	k/(h/12)	(p+q)	
Line	Legacy Location Description	In Service Date	irst/Second Half Ye:	Service Life	maining L	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2005 Net Book Value	2004 Net Book Value	2003 Net Book Value	Yearly Costs	Undepreciated Bal Beginning Year	2003 ROI
497															
498															
499															
500															
501															
502															
503															
504															
505															
506															
507															
509															
513															
514															
515															
521															
522															
										TOTALS					

(B)(4)
(B)(7)(e)

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Manzanares Pipeline
As of 12-31-2003

Line	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2005 Net Book Value	(k/h)+n 2004 Net Book Value	(k/h)+o 2003 Net Book Value	k/(h/12) Yearly Cost	(p+q) Undepreciated Bal Beginning of Year	(q*.0719) BBB 200

(B)(4)

(B)(4)
(B)(7)(e)

Manzanares Compressors
As of 12-31-2003

(B)(4) (B)(7)(e)
(B)(4)

Line	Legacy Location Description	In Service: In Service Date	In Service: First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value	2005 Net Book Value	(k/ft)+n: 2004 Net Book Value	(k/h)+o: 2003 Net Book Value	k/(h/12): Yearly Cost	(p+q) Undepreciated Bal Beginning of Year	BBB 2003
1738															
1632															
280															
1624															
1625															
1628															
1646															
1712															
1718															
1728															
1736															
1725															
1634															
1647															
726															
1648															
1673															
1674															
1696															
1726															
1650															
1631															
1698															
1699															
1714															
65															
66															
95															
148															
193															
251															
281															
328															
334															
336															
358															
421															
444															
489															
517															
534															
659															
692															
727															
848															
1675															
1676															
1677															
1678															
1679															
1680															
1681															
1682															
1683															
1684															
1685															
1686															
1687															
1688															
1689															
1690															
1691															
1692															
1693															
1694															
1695															
1649															
1626															
									Totals $						

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total Units	c Williams
Dehydrators Units		(B)(4)
Total Unidentified Location Depreciation Total Unidentified Location ROI		(B)(7)(e)

Units	Total	Williams
(B)(4)		(B)(4)

Units	Total	Williams
(B)(4)	(B)(4)	

Units	Total	Williams
(B)(4)	(B)(4)	

Units	Total	Williams
(B)(4)		

Units	Total	Williams
(B)(4)		

Units	Total	Williams
(B)(4)	(B)(7)(e)	

Units	Total	Williams
(B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	Williams
Units	4	4
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(7)(e) (B)(4) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4)	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost

(B)(4) (B)(7)(e)

(B)(7)(e)

Manzanares Pipeline
As of 12-31-2004

Line	Legacy Location Description	Yearly Cost	Net Book Value 2005 (Also undepreciated Bal Beginning of Year 2006)
		(B)(4)	
	(B)(4)	(B)(7)(e)	
(B)(4)			
	Grand Total	(B)(4)	

2005 Pipeline Depreciation

(n+o)	(n+p)	
Undepreciated Bal Beginning Year 2005	**Undepreciated Bal Beginning Year 2004**	**BBB 2004 (B)(4)**

Manzanares Pipeline
As of 12-31-2004

Line	Legacy Location Description	BBB 2004 .0640
	(B)(4)	
Grand Total		(B)(4)

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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	col(p) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)												(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel meld	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
						(B)(4)							
Subtotal Compressors												(B)(4)	
						(B)(7)(e)						(B)(7)(e)	

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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)												(B)(7)(e) (B)(4)	

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:i)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4)									(B)(7)(e)			(B)(4) (B)(7)(e)	
Subtotal Dehydrators													(B)(4)

Allowed Costs

(B)(4) (B)(7)(e)							4,390,223		6,470,600				(B)(7)(e)

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MANZANARES SYSTEM COSTS - 2004
Unbundling Percentage Calculation

Disallowed Costs

Final 4-21-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
Subtotal Pipeline & Allowed Booster Compressors													
Grand Total													

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)

(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M)
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)

2004 Cost Recap & Comparison

	Yearly Cost- Direct Depreciation	ROI
Compression	(B)(4)	
Dehydration		
Pipeline	(B)(7)(e)	
Totals		
Cost Workpaper		
Variance		

Revised

2004 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
	Total Units	Exterran	Williams
Compressors	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			

	Total	Exterran	Williams
Units (B)(4)			
Units (B)(4)			
Units (B)(4)		(B)(4) (B)(7)(e)	
Units (B)(4)			
Units (B)(4)			
Units (B)(4)			
Units (B)(4)			(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)			

Units	Total
(B)(7)(e) (B)(4)	(B)(4)
Units	Total
(B)(7)(e) (B)(4)	(B)(4)
Units	Total
(B)(4)	(B)(4)
Units	Total
(B)(4)	(B)(4)
Units	Total
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)
Units	Total
(B)(4)	(B)(4) (B)(7)(e)
Units	Total
(B)(4)	
Units	Total
(B)(4)	
Units	Total
(B)(4)	(B)(4)
Units	Total
(B)(4)	
Units	Total
Units	Total
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)		(B)(4)			
		Total			
Units					
(B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
		Total			
Units					
(B)(4)		(B)(4) (B)(7)(e)			
		Total			
Units					
(B)(7)(e)	(B)(4)	(B)(4) (B)(7)(e)			

	Total Compression Depreciation Yrly Cost	Total Compressors	
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
		Total Compressors	

	Total Compression ROI
T[illegible]rom Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

2004 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression		
Dehydration	(B)(4)	
Pipeline	(B)(7)(e)	
Totals		
Cost Workpaper		
Variance		

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI	(B)(4) (B)(7)(e)	
	Total	
Units		
(B)(4) (B)(7)(e)		
Units		
(B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4) (B)(7)(e)		
Units		
(B)(4) (B)(7)(e)		
Units		
(B)(4) (B)(7)(e)		

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	
Units (B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4)		
Units (B)(7)(e) (B)(4)		
Units (B)(7)(e) (B)(4)		
Units (B)(4) (B)(7)(e)		
Units (B)(4)		
Units (B)(4)		
Units (B)(7)(e) (B)(4)		
Units		

MANZANARES 2004
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4)	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost (B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(7)(e)

(B)(4)

Prepared by: Julia Meddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(7)(e)

(B)(4)

Prepared by: Julia Meddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
				(B)(7)(e) (B)(4)					
Subtotal Compressors							(B)(7)(e)		
				(B)(7)(e) (B)(4)					

Prepared by: Julia Maddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Willams 2006 typical exp $	O & M/Mo Willams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)

(B)(7)(e)

Prepared by: Julia Maddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
				(B)(7)(e) (B)(4)					
Subtotal Dehydrators								(B)(4)	
				(B)(7)(e) (B)(4)					
							(B)(4)		(B)(7)(e)

Prepared by: Julia Maddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
				(B)(4)					(B)(7)(e)
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Yearly Operational Costs O & M and G & A	(B)(4)
Less Yrl Operational Costs Compression & Dehydration	
Pipeline Costs	(B)(7)(e)

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Reviewed by: _____Date:
Work paper: Monthly Expenses

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MANZANARES SYSTEM COSTS - 2004

MONTHLY EXPENSES

Final 4/21/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Manzanares

(000's)	O&M 2007	2006	2005	2004	2003	2002
Manzanares Gathering	(B)(4)					(B)(7)(e)
	G & A					
Totals	(B)(4)					(B)(7)(e)

2007 Typical Monthly Equipment O&M

Compression	(B)(4)			(B)(7)(e)	Total Yrlr Exp	(B)(4)			(B)(7)(e)	Total Yrlr Exp
	O&M*	Fluid	O/H Resv.	Total		Owned Rent	Owned O&M	Owned Fluid	Owned Total	
(B)(4)	(B)(4)				(B)(7)(e)			(B)(4)		(B)(7)(e)
						(B)(4)				(B)(7)(e)

Prepared by: Julia Maddux Date: 4/21/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

Manzanares Compressors
As of 12-31-2004

2004 Unknown Compressor Locations from Compressor Depreciation Schedule

	Yearly Cost
(B)(4)	
(B)(7)(e)	
Total Unkown Depreciation	

2004

~~2005~~ Unknown Compressor Locations ROI

(B)(4)
(B)(7)(e)

Total

Unknown locations provided by Williams (Williams called these "Indirect Locations")

Manzanares Pipeline
As of 12-31-2004

k/(h/12) (B)(4)

Line	Legacy Location Description	Yearly Cost	BBB 2004 (B)(4)
(B)(7)(e)			
(B)(4)		(B)(7)(e) (B)(4)	
Grand Total			

2004 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)
(B)(7)(e)

Total Unkown ROI

Manzanares Dehydrators
As of 12-31-2004
ROI

Line	Legacy Location Description	2004 ROI (B)(4)
	(B)(4) (B)(7)(e)	
#N/A Total		
Grand Total		(B)(4) (B)(7)(e)

Unknown Dehydration Locations from Dehydration Depreciation Schedule 2004

	Yearly Cost
(B)(7)(e) (B)(4)	
Total Unkown Depreciation	

For Year 2005

1. Determine Changes in Assets for each year by Service Date. Filter out later years Removed assets

- [x] Compressor Asset Schedule
- [ ] Dehydrator Asset Schedule
- [ ] Pipeline Asset Schedule
- [ ] Monthly Expense workpaper
- [ ] Cost Workpaper

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

2. Make changes to depreciation schedules

- [ ] Schedule
- [ ] Schedule
- [ ] Schedule
- [ ] Monthly Expense workpaper
- [ ] Cost Workpaper

3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed)

- [x] Compressor
- [x] Dehydrator
- [x] Pipeline
- [ ] Monthly Expense workpaper
- [ ] Cost Workpaper

2005 BBB rate = .05 65
Rate = 1.3 times BBB per 30 CFR 206.157(v)(2005)

4. Recalculate monthly expenses

- [ ] Compressor
- [ ] Dehydrator
- [ ] Pipeline
- [x] Monthly Expense workpaper
- [ ] Cost Workpaper

Monthly Exp for eq equip does not change.
Update Pipeline costs.

5. Update Depreciation and ROI by equipment wp, compressors and dehydrators

- [x] Compressor
- [x] Dehydrator
- [x] Pipeline
- [ ] Monthly Expense workpaper
- [ ] Cost Workpaper

6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI

- [ ] Compressor
- [ ] Dehydrator
- [ ] Pipeline
- [ ] Monthly Expense workpaper
- [x] Cost Workpaper

Allowed =
Disallowed =

(B)(4)

(B)(7)(e)

Allowed =
Disallowed

Fuel allowed =
fuel disallowed =

(B)(4)

(B)(7)(e)

JAM 2/25/09

and maintenance of the transportation system is an allowable expense. State and Federal income taxes and severance taxes and other fees, including royalties, are not allowable expenses.

(iv) A lessee may use either depreciation or a return on depreciable capital investment. After a lessee has elected to use either method for a transportation system, the lessee may not later elect to change to the other alternative without approval of the MMS.

(A) To compute depreciation, the lessee may elect to use either a straight-line depreciation method based on the life of equipment or on the life of the reserves which the transportation system services, or a unit of production method. After an election is made, the lessee may not change methods without MMS approval. A change in ownership of a transportation system shall not alter the depreciation schedule established by the original transporter/lessee for purposes of the allowance

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calculation. With or without a change in ownership, a transportation system shall be depreciated only once. Equipment shall not be depreciated below a reasonable salvage value.

(B) The MMS shall allow as a cost an amount equal to the allowable initial capital investment in the transportation system multiplied by the rate of return determined pursuant to paragraph (b)(2)(v) of this section. No allowance shall be provided for depreciation. This alternative shall apply only to transportation facilities first placed in service after March 1, 1988.

(v) The rate of return must be 1.3 times the industrial rate associated with Standard & Poor's BBB rating. The BBB rate must be the monthly average rate as published in Standard & Poor's Bond Guide for the first month for which the allowance is applicable. The rate must be redetermined at the beginning of each subsequent calendar year.

(3)(i) The deduction for transportation costs shall be determined on the basis of the lessee's cost of transporting each product through each individual transportation system. Where more than one product in a gaseous phase is transported, the allocation of costs to each of the products transported shall be made in a consistent and equitable manner in the same proportion as the ratio of the volume of each product (excluding waste products which have no value) to the volume of all products in the gaseous phase (excluding waste products which have no value). Except as provided in this paragraph, the lessee may not take an allowance for transporting a product which is not royalty bearing without MMS approval.

(ii) Notwithstanding the requirements of paragraph (b)(3)(i), the lessee may propose to the MMS a cost allocation method on the basis of the values of the products transported. MMS shall approve the method unless it determines that it is not consistent with the purposes of the regulations in this part.

(4) Where both gaseous and liquid products are transported through the same transportation system, the lessee shall propose a cost allocation procedure to MMS. The lessee may use the transportation allowance determined in accordance with its proposed allocation procedure until MMS issues its determination on the acceptability of the cost allocation. The lessee shall submit all relevant data to support its proposal. MMS shall then determine the transportation allowance based upon the lessee's proposal and any additional information MMS deems necessary. The lessee must submit the allocation proposal within 3 months of claiming the allocated deduction on the Form MMS-2014.

(5) You may apply for an exception from the requirement to compute actual costs under paragraphs (b)(1) through (b)(4) of this section.

2005 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression		
Dehydration		(B)(4)
Pipeline		
Totals		(B)(7)(e)
Cost Workpaper		
Variance		

5/20/2009

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 5-12-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Assat Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs Final 5-12-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 5-12-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Msp	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	$ Williams Asset Schedule	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4)														(B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 5-12-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Wills vs 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
								(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Subtotal Dehydrators															

Allowed Costs

(B)(4) (B)(7)(e)							(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)			(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 5-12-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(4) (B)(7)(e)							(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)
Subtotal Pipeline & Allowed Booster Compressors															
Grand Total															

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)
	(B)(7)(e)		(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All data inputs are

(B)(4) (B)(4)(B)(7)(e)
(B)(7)(e)

2005 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			
Units			
"29-6, 29-6-2" Area Depreciation			
"29-6, 29-6-2" Area ROI		(B)(4) (B)(7)(e)	
Units			
"29-6-4" Area Depreciation			
"29-6-4" Area ROI			
Units			
"29-7" Area Depreciation			
"29-7" Area ROI			
Units			
"30-5, 30-5-1, 30-6" Area Depreciation		(B)(4) (B)(7)(e)	
"30-5, 30-5-1, 30-6" Area ROI			
Units			
"31-6-1" Area Depreciation			
"31-6-1" Area ROI			
Units			
"32-7-1" Area Depreciation			
"32-7-1" Area ROI			(B)(4) (B)(7)(e)
Units			

(B)(4)	(B)(7)(e)		(B)(4)					
			(B)(7)(e)					
			Total		(B)(4)		(B)(4)	
Units					(B)(7)(e)		(B)(7)(e)	
(B)(4)	(B)(7)(e)		(B)(4)					
			(B)(7)(e)					

	Total	Exterran	Williams
Units (B)(4)			
Units (B)(4)			
Units (B)(7)(e)			
Units (B)(4)			
Units (B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units			
Units			
Units (B)(4)			
Units (B)(7)(e)			
Units (B)(7)(e) (B)(4)			

(B)(7)(e) (B)(4)

Units

(B)(4)

Units

(B)(4)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units

(B)(4)

Units

(B)(7)(e)

Units

(B)(7)(e)

Units

(B)(4)

(B)(7)(e)

Total from Capital Costs wp

Total Compressors

Carracas
Esperanza
Total Compressors

(B)(4)
(B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units (B)(7)(e) (B)(4)		
Units (B)(4)	(B)(4) (B)(7)(e)	
Units (B)(4)		(B)(4) (B)(7)(e)
Units (B)(4)		
Units (B)(4)		
Units (B)(4)		
Units (B)(7)(e) (B)(4)		

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total		
Units (B)(4)			
Units (B)(4)			
Units (B)(4) (B)(7)(e)			
Units (B)(4)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(4)			
Units (B)(4)			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			
Units			

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(7)(e)	(B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation	(B)(4) (B)(7)(e)	Total Dehydrators (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI	(B)(4) (B)(7)(e)	Total Dehydrators

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are

Manzanares Pipeline
As of 12-31-2005

Line	Legacy Location Description	Yearly Cost
	(B)(4)	
(B)(4)	#N/A Total	
(B)(7)(e)	Grand Total	

ROI

Manzanares Pipeline
As of 12-31-2005

Line	Legacy Location Description	(B)(4) (B)(7)(e) 2005 BBB (B)(4)
	(B)(4) (B)(7)(e)	
(B)(4) (B)(7)(e)	Grand Total	(B)(4) (B)(7)(e)

2005 Cost Recap & Comparison

	Yearly Cost-Direct Depreciation	ROI
Compression	(B)(4)	
Dehydration		
Pipeline		
Totals	(B)(7)(e)	
Cost Workpaper		
Variance		

Revised

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
[redacted]									
Subtotal Compressors									
[redacted]									

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddux Date: 2/6/2009
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Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Willams 2006 typical exp $	O & M/Mo Willams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j

(B)(4)
(B)(7)(e)

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Work paper. Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
			(B)(4) (B)(7)(e)						
Subtotal Dehydrators									
			(B)(4) (B)(7)(e)						
			(B)(4)					(B)(7)(e)	

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
					(B)(4) (B)(7)(e)				
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Yearly Operational Costs O & M and G & A	
Less Yrl Operational Costs Compression & Dehydration	(B)(4)
Pipeline Costs	(B)(7)(e)

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Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005

MONTHLY EXPENSES

Final 2/6/09

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Manzanares

(000's)	O&M 2007	2006	2005	2004	2003	2002
Manzanares Gathering	(B)(4)					(B)(7)(e)
	G & A					
	(B)(4)					
Totals	(B)(4)					

2007 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrlr Exp	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yrlr Exp
(B)(4) (B)(7)(e)			(B)(4)		(B)(7)(e)			(B)(4) (B)(7)(e)		

Prepared by: Julia Maddux Date: 2/6/2009
Reviewed by: _____ Date:
Work paper: Monthly Expenses

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Williams Financial Data and Typical Equipment Expenses
Manzanares

(000's)	O&M 2007	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2007	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Gathering	(B)(4)											(B)(7)(e)

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total
(B)(4)	(B)(4)			(B)(7)(e)			(B)(4)	(B)(7)(e)
(B)(7)(e)						(B)(4)		(B)(7)(e)

Dehydration	O&M	O/H Resv.	Fluid	Total
			(B)(4)	

* O&M proxy

2006 O&M & G&A =

~~2005~~ O&M & G&A =

2007 O&M & G&A =

(B)(4)

2005 COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			
			(B)(4)
			(B)(7)(e)
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			
		(B)(4)	
		(B)(7)(e)	
			(B)(4)
			(B)(7)(e)
Units			
(B)(4)			
Units			
(B)(4)			
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			
		(B)(4)	
		(B)(7)(e)	
Units			
(B)(7)(e) (B)(4)			
			(B)(4)
			(B)(7)(e)
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)	3,572.96	357.30	952.79

Units	Total	Exterran	
(B)(4)	(B)(4)		
Units	Total		
(B)(7)(e) (B)(4)			
Units	Total		
(B)(4)			
Units	Total		
Units	Total		
(B)(7)(e)	(B)(4)	(B)(4)	(B)(4) (B)(7)(e)
Units	Total		
(B)(4)			
Units	Total		
(B)(4)			
Units	Total		
(B)(4)			
Units	Total		
(B)(4)	(B)(4) (B)(7)(e)		
Units	Total		
(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)		

Units	Total	Exterran	Williams
(B)(4)		(B)(4) (B)(7)(e)	0.00 (B)(4) (B)(7)(e)
Units	Total		
(B)(4)	(B)(4)		
Units	Total		
(B)(7)(e) (B)(4)	(B)(4)		
Units	Total		
(B)(4)	(B)(4)		
Units	Total		
(B)(4)	(B)(4)		

	Total Compression Depreciation Yrly Cost	Total Compressors
Total from Capital Costs wp	(B)(7)(e)	Total Compressors (B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

Manzanares Compressors
[redacted]f 12-31-2005

Line	Legacy Location Description	Yearly Cost
[redacted]	(B)(4) (B)(7)(e)	[redacted]
Grand Total		(B)(4) (B)(7)(e)

Manzanares Compressors
As of 12-31-2005

Line	Legacy Location Description	BBB 2005 (B)(4) (B)(4)
	(B)(4) (B)(7)(e)	
Grand Total		(B)(4)

2005 Unknown Compressor Locations ROI

(B)(4)
(B)(7)(e)
(B)(7)(e)

Total

Unknown locations provided by Williams (Williams called these "Indirect Locations")

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units		
(B)(7)(e) (B)(4)		
Units	(B)(4) (B)(7)(e)	
(B)(4)		
Units		(B)(4) (B)(7)(e)
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(7)(e) (B)(4)		

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total		
Units			
(B)(7)(e) (B)(4)			
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			
Units	(B)(4) (B)(7)(e)		
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	
Units			
(B)(4)			
Units			
(B)(4)			
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			
Units			

MANZANARES 2005
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

(B)(7)(e)	(B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4)	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are (B)(4) (B)(7)(e)

Manzanares Dehydrators
As of 12-31-2005

Line	Legacy Location Description	In Service Date	Yearly Costs
	(B)(4)		
	(B)(7)(e)		
Grand Total			

Manzanares Dehydrators
As of 12-31-2005

Line	Legacy Location Description	BBB 2005 .0565 * 1.3
	(B)(4)	
	(B)(7)(e)	
	Grand Total	

2005 Pipeline Depreciation

Retirement Unit	Legacy Location Description	Yearly Cost
	(B)(4) (B)(7)(e)	
Grand Total		(B)(7)(e)

Legacy Location Description	BBB 2005 (B)(4) (B)(4)
(B)(4) (B)(7)(e)	
Grand Total	

[Code of Federal Regulations]
[Title 30, Volume 2]
[Revised as of July 1, 2005]
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[Page 91-96]

TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE, DEPARTMENT OF THE INTERIOR

PART 206_PRODUCT VALUATION--Table of Contents

Subpart D_Federal Gas

Sec. 206.157 Determination of transportation allowances.

(a) Arm's-length transportation contracts. (1)(i) For transportation costs incurred by a lessee under an arm's-length contract, the transportation allowance shall be the reasonable, actual costs incurred by the lessee for transporting the unprocessed gas, residue gas and/or gas plant products under that contract, except as provided in paragraphs (a)(1)(ii) and (a)(1)(iii) of this section, subject to monitoring, review, audit, and adjustment. The lessee shall have the burden of demonstrating that its contract is arm's-length. MMS' prior approval is not required before a lessee may deduct costs incurred under an arm's-length contract. Such allowances shall be subject to the provisions of paragraph (f) of this section. The lessee must claim a transportation allowance by reporting it as a separate line entry on the Form MMS-2014.

(ii) In conducting reviews and audits, MMS will examine whether or not the contract reflects more than the consideration actually transferred either directly or indirectly from the lessee to the transporter for the transportation. If the contract reflects more than the total consideration, then the MMS may require that the transportation allowance be determined in accordance with paragraph (b) of this section.

(iii) If the MMS determines that the consideration paid pursuant to an arm's-length transportation contract does not reflect the reasonable value of the transportation because of misconduct by or between the contracting parties, or because the lessee otherwise has breached its duty to the lessor to market the production for the mutual benefit of the lessee and the lessor, then MMS shall require that the transportation allowance be determined in accordance with paragraph (b) of this section. When MMS determines that the value of the transportation may be unreasonable, MMS will notify the lessee and give the lessee an opportunity to provide written information justifying the lessee's transportation costs.

(2)(i) If an arm's-length transportation contract includes more than one product in a gaseous phase and the transportation costs attributable to each product cannot be determined from the contract, the total transportation costs shall be allocated in a consistent and equitable manner to each of the products transported in the same proportion as the ratio of the volume of each product (excluding waste products which have no value) to the volume of all products in the gaseous phase (excluding waste products which have no value). Except as provided in this paragraph, no allowance may be taken for the costs of transporting lease production which is not royalty bearing without MMS approval.

(ii) Notwithstanding the requirements of paragraph (i), the lessee may propose to MMS a cost allocation method on the basis of the values

of the products transported. MMS shall approve the method unless it determines that it is not consistent with the purposes of the regulations in this part.

(3) If an arm's-length transportation contract includes both gaseous and liquid products and the transportation

[[Page 92]]

costs attributable to each cannot be determined from the contract, the lessee shall propose an allocation procedure to MMS. The lessee may use the transportation allowance determined in accordance with its proposed allocation procedure until MMS issues its determination on the acceptability of the cost allocation. The lessee shall submit all relevant data to support its proposal. MMS shall then determine the gas transportation allowance based upon the lessee's proposal and any additional information MMS deems necessary. The lessee must submit the allocation proposal within 3 months of claiming the allocated deduction on the Form MMS-2014.

(4) Where the lessee's payments for transportation under an arm's-length contract are not based on a dollar per unit, the lessee shall convert whatever consideration is paid to a dollar value equivalent for the purposes of this section.

(5) Where an arm's-length sales contract price or a posted price includes a provision whereby the listed price is reduced by a transportation factor, MMS will not consider the transportation factor to be a transportation allowance. The transportation factor may be used in determining the lessee's gross proceeds for the sale of the product. The transportation factor may not exceed 50 percent of the base price of the product without MMS approval.

(b) Non-arm's-length or no contract. (1) If a lessee has a non-arm's-length transportation contract or has no contract, including those situations where the lessee performs transportation services for itself, the transportation allowance will be based upon the lessee's reasonable actual costs as provided in this paragraph. All transportation allowances deducted under a non-arm's-length or no contract situation are subject to monitoring, review, audit, and adjustment. The lessee must claim a transportation allowance by reporting it as a separate line entry on the Form MMS-2014. When necessary or appropriate, MMS may direct a lessee to modify its estimated or actual transportation allowance deduction.

(2) The transportation allowance for non-arm's-length or no-contract situations shall be based upon the lessee's actual costs for transportation during the reporting period, including operating and maintenance expenses, overhead, and either depreciation and a return on undepreciated capital investment in accordance with paragraph (b)(2)(iv)(A) of this section, or a cost equal to the initial depreciable investment in the transportation system multiplied by a rate of return in accordance with paragraph (b)(2)(iv)(B) of this section. Allowable capital costs are generally those costs for depreciable fixed assets (including costs of delivery and installation of capital equipment) which are an integral part of the transportation system.

(i) Allowable operating expenses include: Operations supervision and engineering; operations labor; fuel; utilities; materials; ad valorem property taxes; rent; supplies; and any other directly allocable and attributable operating expense which the lessee can document.

(ii) Allowable maintenance expenses include: Maintenance of the transportation system; maintenance of equipment; maintenance labor; and other directly allocable and attributable maintenance expenses which the lessee can document.

(iii) Overhead directly attributable and allocable to the operation

and maintenance of the transportation system is an allowable expense. State and Federal income taxes and severance taxes and other fees, including royalties, are not allowable expenses.

(iv) A lessee may use either depreciation or a return on depreciable capital investment. After a lessee has elected to use either method for a transportation system, the lessee may not later elect to change to the other alternative without approval of the MMS.

(A) To compute depreciation, the lessee may elect to use either a straight-line depreciation method based on the life of equipment or on the life of the reserves which the transportation system services, or a unit of production method. After an election is made, the lessee may not change methods without MMS approval. A change in ownership of a transportation system shall not alter the depreciation schedule established by the original transporter/lessee for purposes of the allowance

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calculation. With or without a change in ownership, a transportation system shall be depreciated only once. Equipment shall not be depreciated below a reasonable salvage value.

(B) The MMS shall allow as a cost an amount equal to the allowable initial capital investment in the transportation system multiplied by the rate of return determined pursuant to paragraph (b)(2)(v) of this section. No allowance shall be provided for depreciation. This alternative shall apply only to transportation facilities first placed in service after March 1, 1988.

(v) The rate of return must be 1.3 times the industrial rate associated with Standard & Poor's BBB rating. The BBB rate must be the monthly average rate as published in Standard & Poor's Bond Guide for the first month for which the allowance is applicable. The rate must be redetermined at the beginning of each subsequent calendar year.

(3)(i) The deduction for transportation costs shall be determined on the basis of the lessee's cost of transporting each product through each individual transportation system. Where more than one product in a gaseous phase is transported, the allocation of costs to each of the products transported shall be made in a consistent and equitable manner in the same proportion as the ratio of the volume of each product (excluding waste products which have no value) to the volume of all products in the gaseous phase (excluding waste products which have no value). Except as provided in this paragraph, the lessee may not take an allowance for transporting a product which is not royalty bearing without MMS approval.

(ii) Notwithstanding the requirements of paragraph (b)(3)(i), the lessee may propose to the MMS a cost allocation method on the basis of the values of the products transported. MMS shall approve the method unless it determines that it is not consistent with the purposes of the regulations in this part.

(4) Where both gaseous and liquid products are transported through the same transportation system, the lessee shall propose a cost allocation procedure to MMS. The lessee may use the transportation allowance determined in accordance with its proposed allocation procedure until MMS issues its determination on the acceptability of the cost allocation. The lessee shall submit all relevant data to support its proposal. MMS shall then determine the transportation allowance based upon the lessee's proposal and any additional information MMS deems necessary. The lessee must submit the allocation proposal within 3 months of claiming the allocated deduction on the Form MMS-2014.

(5) You may apply for an exception from the requirement to compute actual costs under paragraphs (b)(1) through (b)(4) of this section.

(i) The MMS will grant the exception if:

(A) The transportation system has a tariff filed with the Federal Energy Regulatory Commission (FERC) or a state regulatory agency, that FERC or the state regulatory agency has permitted to become effective, and

(B) Third parties are paying prices, including discounted prices, under the tariff to transport gas on the system under arm's-length transportation contracts.

(ii) If MMS approves the exception, you must calculate your transportation allowance for each production month based on the lesser of the volume-weighted average of the rates paid by the third parties under arm's-length transportation contracts during that production month or the non-arm's-length payment by the lessee to the pipeline.

(iii) If during any production month there are no prices paid under the tariff by third parties to transport gas on the system under arm's-length transportation contracts, you may use the volume-weighted average of the rates paid by third parties under arm's-length transportation contracts in the most recent preceding production month in which the tariff remains in effect and third parties paid such rates, for up to five successive production months. You must use the non-arm's-length payment by the lessee to the pipeline if it is less than the volume-weighted average of the rates paid by third parties under arm's-length contracts.

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(c) Reporting requirements--(1) Arm's-length contracts. (i) You must use a separate entry on Form MMS-2014 to notify MMS of a transportation allowance.

(ii) The MMS may require you to submit arm's-length transportation contracts, production agreements, operating agreements, and related documents. Recordkeeping requirements are found at part 207 of this chapter.

(iii) You may not use a transportation allowance that was in effect before March 1, 1988. You must use the provisions of this subpart to determine your transportation allowance.

(2) Non-arm's-length or no contract. (i) You must use a separate entry on Form MMS-2014 to notify MMS of a transportation allowance.

(ii) For new transportation facilities or arrangements, base your initial deduction on estimates of allowable gas transportation costs for the applicable period. Use the most recently available operations data for the transportation system or, if such data are not available, use estimates based on data for similar transportation systems. Paragraph (e) of this section will apply when you amend your report based on your actual costs.

(iii) The MMS may require you to submit all data used to calculate the allowance deduction. Recordkeeping requirements are found at part 207 of this chapter.

(iv) If you are authorized under paragraph (b)(5) of this section to use an exception to the requirement to calculate your actual transportation costs, you must follow the reporting requirements of paragraph (c)(1) of this section.

(v) You may not use a transportation allowance that was in effect before March 1, 1988. You must use the provisions of this subpart to determine your transportation allowance.

(d) Interest and assessments. (1) If a lessee nets a transportation allowance against the royalty value on the Form MMS-2014, the lessee shall be assessed an amount of up to 10 percent of the allowance netted not to exceed $250 per lease selling arrangement per sales period.

(2) If a lessee deducts a transportation allowance on its Form MMS-

2014 that exceeds 50 percent of the value of the gas transported without obtaining prior approval of MMS under Sec. 206.156, the lessee shall pay interest on the excess allowance amount taken from the date such amount is taken to the date the lessee files an exception request with MMS.

(3) If a lessee erroneously reports a transportation allowance which results in an underpayment of royalties, interest shall be paid on the amount of that underpayment.

(4) Interest required to be paid by this section shall be determined in accordance with 30 CFR 218.54.

(e) Adjustments. (1) If the actual transportation allowance is less than the amount the lessee has taken on Form MMS-2014 for each month during the allowance reporting period, the lessee shall be required to pay additional royalties due plus interest computed under 30 CFR 218.54 from the allowance reporting period when the lessee took the deduction to the date the lessee repays the difference to MMS. If the actual transportation allowance is greater than the amount the lessee has taken on Form MMS-2014 for each month during the allowance reporting period, the lessee shall be entitled to a credit without interest.

(2) For lessees transporting production from onshore Federal leases, the lessee must submit a corrected Form MMS-2014 to reflect actual costs, together with any payment, in accordance with instructions provided by MMS.

(3) For lessees transporting gas production from leases on the OCS, if the lessee's estimated transportation allowance exceeds the allowance based on actual costs, the lessee must submit a corrected Form MMS-2014 to reflect actual costs, together with its payment, in accordance with instructions provided by MMS. If the lessee's estimated transportation allowance is less than the allowance based on actual costs, the refund procedure will be specified by MMS.

(f) Allowable costs in determining transportation allowances. You may include, but are not limited to (subject to the requirements of paragraph (g) of this section), the following costs in determining the arm's-length transportation allowance under paragraph (a) of

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this section or the non-arm's-length transportation allowance under paragraph (b) of this section. You may not use any cost as a deduction that duplicates all or part of any other cost that you use under this paragraph.

(1) Firm demand charges paid to pipelines. You may deduct firm demand charges or capacity reservation fees paid to a pipeline, including charges or fees for unused firm capacity that you have not sold before you report your allowance. If you receive a payment from any party for release or sale of firm capacity after reporting a transportation allowance that included the cost of that unused firm capacity, or if you receive a payment or credit from the pipeline for penalty refunds, rate case refunds, or other reasons, you must reduce the firm demand charge claimed on the Form MMS-2014 by the amount of that payment. You must modify the Form MMS-2014 by the amount received or credited for the affected reporting period, and pay any resulting royalty and late payment interest due;

(2) Gas supply realignment (GSR) costs. The GSR costs result from a pipeline reforming or terminating supply contracts with producers to implement the restructuring requirements of FERC Orders in 18 CFR part 284;

(3) Commodity charges. The commodity charge allows the pipeline to recover the costs of providing service;

(4) Wheeling costs. Hub operators charge a wheeling cost for

transporting gas from one pipeline to either the same or another pipeline through a market center or hub. A hub is a connected manifold of pipelines through which a series of incoming pipelines are interconnected to a series of outgoing pipelines;

(5) Gas Research Institute (GRI) fees. The GRI conducts research, development, and commercialization programs on natural gas related topics for the benefit of the U.S. gas industry and gas customers. GRI fees are allowable provided such fees are mandatory in FERC-approved tariffs;

(6) Annual Charge Adjustment (ACA) fees. FERC charges these fees to pipelines to pay for its operating expenses;

(7) Payments (either volumetric or in value) for actual or theoretical losses. However, theoretical losses are not deductible in non-arm's-length transportation arrangements unless the transportation allowance is based on arm's-length transportation rates charged under a FERC- or state regulatory-approved tariff under paragraph (b)(5) of this section. If you receive volumes or credit for line gain, you must reduce your transportation allowance accordingly and pay any resulting royalties and late payment interest due;

(8) Temporary storage services. This includes short duration storage services offered by market centers or hubs (commonly referred to as ``parking'' or ``banking''), or other temporary storage services provided by pipeline transporters, whether actual or provided as a matter of accounting. Temporary storage is limited to 30 days or less; and

(9) Supplemental costs for compression, dehydration, and treatment of gas. MMS allows these costs only if such services are required for transportation and exceed the services necessary to place production into marketable condition required under Sec. Sec. 206.152(i) and 206.153(i) of this part.

(10) Costs of surety. You may deduct the costs of securing a letter of credit, or other surety, that the pipeline requires you as a shipper to maintain under an arm's-length transportation contract.

(g) Nonallowable costs in determining transportation allowances. Lessees may not include the following costs in determining the arm's-length transportation allowance under paragraph (a) of this section or the non-arm's-length transportation allowance under paragraph (b) of this section:

(1) Fees or costs incurred for storage. This includes storing production in a storage facility, whether on or off the lease, for more than 30 days;

(2) Aggregator/marketer fees. This includes fees you pay to another person (including your affiliates) to market your gas, including purchasing and reselling the gas, or finding or maintaining a market for the gas production;

(3) Penalties you incur as shipper. These penalties include, but are not limited to:

(i) Over-delivery cash-out penalties. This includes the difference between

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the price the pipeline pays you for over-delivered volumes outside the tolerances and the price you receive for over-delivered volumes within the tolerances;

(ii) Scheduling penalties. This includes penalties you incur for differences between daily volumes delivered into the pipeline and volumes scheduled or nominated at a receipt or delivery point;

(iii) Imbalance penalties. This includes penalties you incur (generally on a monthly basis) for differences between volumes delivered

into the pipeline and volumes scheduled or nominated at a receipt or delivery point; and

(iv) Operational penalties. This includes fees you incur for violation of the pipeline's curtailment or operational orders issued to protect the operational integrity of the pipeline;

(4) Intra-hub transfer fees. These are fees you pay to hub operators for administrative services (e.g., title transfer tracking) necessary to account for the sale of gas within a hub;

(5) Fees paid to brokers. This includes fees paid to parties who arrange marketing or transportation, if such fees are separately identified from aggregator/marketer fees;

(6) Fees paid to scheduling service providers. This includes fees paid to parties who provide scheduling services, if such fees are separately identified from aggregator/marketer fees;

(7) Internal costs. This includes salaries and related costs, rent/space costs, office equipment costs, legal fees, and other costs to schedule, nominate, and account for sale or movement of production; and

(8) Other nonallowable costs. Any cost you incur for services you are required to provide at no cost to the lessor.

(h) Other transportation cost determinations. Use this section when calculating transportation costs to establish value using a netback procedure or any other procedure that requires deduction of transportation costs.

[53 FR 1272, Jan. 15, 1988, as amended at 53 FR 45762, Nov. 14, 1988; 61 FR 5465, Feb. 12, 1996; 62 FR 65762, Dec. 16, 1997; 70 FR 11878, Mar. 10, 2005]

For Year 2006

1. Determine Changes in Assets for each year by Service Date. Filter out later years First yr received info no adj necessary	NA	Compressor Asset Schedule	NA	Dehydrator Asset Schedule	NA	Pipeline Asset Schedule	NA	Monthly Expense workpaper	NA	Cost Workpaper
2. Make changes to depreciation schedules	NA	Compressor Asset Schedule	NA	Dehydrator Asset Schedule	NA	Pipeline Asset Schedule		Monthly Expense workpaper		Cost Workpaper
3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed) BBB = (B)(4) for 2006 ROI rate = (B)(4) times BBB	✓	Compressor	✓	Dehydrator	✓	Pipeline		Monthly Expense workpaper		Cost Workpaper
4. Recalculate monthly expenses		Compressor		Dehydrator		Pipeline	✓	Monthly Expense workpaper		Cost Workpaper
5. Update Depreciation and ROI by equipment wp, compressors and dehydrators	✓	Compressor	✓	Dehydrator	✓	Pipeline		Monthly Expense workpaper		Cost Workpaper
6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI		Compressor		Dehydrator		Pipeline	✓	Monthly Expense workpaper	✓	Cost Workpaper

Allowed (B)(7)(e)
Disallowed (B)(4)

JM 1/12/09

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Final 2-2-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel calc(c)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical sum $	col (o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
								(B)(4) (B)(7)(e)						(B)(4)	
								(B)(4)							

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1338

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Final 2-2-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(q) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
[redacted]														(B)(4) (B)(7)(e)	
														(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
295 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Final 2-2-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (n) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
265 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Final 2-2-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (n) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(7)(e) (B)(4)							(B)(4) (B)(7)(e)	
Subtotal Dehydrators															(B)(4)

Allowed Costs

(B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)				(B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4)	(B)(4) (B)(7)(e)			(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

isallowed Costs

Final 2-2-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel multiplier	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e) (B)(4)															(B)(4) (B)(7)(e)
Subtotal Pipeline & Allowed Booster Compressors															
Grand Total															

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)

(B)(7)(e) (B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet (B)(7)(e)
All dehydrators are (B)(4)

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	d
Compressors	Total Units	Exterran	Williams
Total Unidentified Location Depreciation	(B)(4)	(B)(4)	(B)(4)
Total Unidentified Location ROI	(B)(7)(e)	(B)(7)(e)	(B)(7)(e)

	Total		
Units (B)(4)			
Units (B)(7)(e) (B)(4)			
Units (B)(7)(e)	(B)(4) (B)(7)(e) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units			
Units (B)(4)			
Units			
Units			
Units (B)(4) (B)(7)(e)			
	Total		

U						
(B)(4)	(B)(7)(e)					
		Total				
Units						
	(B)(7)(e)					
		Total				
Units						
	(B)(7)(e)		(B)(4)			
		Total				
Units						
	(B)(7)(e)					
		Total				
Units						
(B)(4)	(B)(7)(e)			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
		Total				
Units						
	(B)(7)(e)					
		Total				
Units						
	(B)(7)(e)		(B)(4)			
		Total				
Units						
	(B)(7)(e)					
		Total				
Units						
(B)(4)	(B)(7)(e)		(B)(4) (B)(7)(e)			
		Total				
Units						
(B)(4)	(B)(7)(e)		(B)(4) (B)(7)(e)			

	Total	Exterran	Williams
Units			

	Total		
Units			
(B)(4)			(B)(4) (B)(7)(e)

	Total		
Units		(B)(4) (B)(7)(e)	
(B)(4)	(B)(4)		

	Total		
Units			
	(B)(4)		

	Total		
Units			
	(B)(4) (B)(7)(e)		

	Total Compression Depreciation	Total Compressors	
Total from Capital Costs wp	(B)(7)(e)	(B)(4)	(B)(4)
		Total Compressors	

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b Total Units	c Williams
Dehydrators Units		
Total Unidentified Location Depreciation Total Unidentified Location ROI		
Units (B)(7)(e) (B)(4)		
Units (B)(4)	(B)(4) (B)(7)(e)	
Units (B)(4)		(B)(4) (B)(7)(e)
Units (B)(4)		
Units (B)(4)		
Units (B)(4)		
Units (B)(7)(e) (B)(4)		

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total	
Units		
Units		
(B)(4)		
Units		
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)
Units	(B)(4) (B)(7)(e)	
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
Units		
(B)(4)		
(B)(4) (B)(7)(e)		

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

Total from Capital Costs wp	Total Dehydration Depreciation	Total Dehydrators	**Total Dehydrators**
	(B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI	Total Dehydrators	
	(B)(4) (B)(7)(e)		

b= From Williams Asset Schedule see Capital Cost
All Dehydrators are (B)(7)(e) (B)(4)

CONFIDENTIAL

Williams Financial Data and Typical Equipment Expenses

(000's)	Operating Costs 2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4)				(B)(7)(e)

	O&M 2006	2005	2004	2003	2002
	(B)(4)				(B)(7)(e)

	G&A 2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4)	(B)(7)(e)			

	Typical Monthly Expenses [1]	Rental	O&M	Fuel
(B)(4)	(B)(7)(e)	$ (B)(4)	(B)(7)(e)	Mcf/d
(B)(4)	(B)(7)(e)	$ (B)(4) (B)(7)(e)		Mcf/d

[1] 2006 typical expenses
[2] Typical dehydrator purchase price

(B)(4)
(B)(7)(e)

O&M includes only Operating Expenses

Operating Costs includes O&M and other expenses

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Tuesday, November 04, 2008 9:41 AM
To: 'Ernest, Mike'
Subject: Revised Manzanares Cost

Mike,

We revised the Manzanares Cost worksheet following our discussion last week. We allocated the Booster costs to allowable we moved them down to bottom of the pipeline section. Will MMS be giving us guidance documentation for the Manzanares and Chaco plants?

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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These are the January S&P BBB bond rates which you need for the unbundling project. These are for our use on this project and cannot be distributed.

1/2000	8.81
1/2001	8.29
1/2002	8.26
1/2003	7.19
1/2004	6.40
1/2005	5.65
1/2006	6.09
1/2007	6.47

These are the base rates and do not reflect that the 2005 revised gas rule allows 1.3 times the rate for transportation but not for processing. We should have the 2008 shortly if you need it.

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2006

Location																			
			Type Equip		Model /		Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
		Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators	Capacity	Manufacturer	Owner														
Williams Manzanares System Map	Trunk						Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(F*365*m)	(j+k)*12 + (n)	(h + l + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Emailed to Mike
11-4-08

Used 2008 typical no expense

11/3/08
11-3-2008 Revised Manzanares System Costs
JAM

1 of 1

Prepared by: Julia Mondua Date: 11/3/08
Reviewed by: _____Date _____
Work paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
[redacted]
Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		r	t	u
(B)(4) (B)(7)(e)																				Includes $2,700 overhaul allocation
Subtotal Compressors																				

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Programs
Page:
Number: 1146

DRAFT 11/13/08

MANZANARES SYSTEM COSTS - 2008

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2008 typical exp	Williams 2008 typical exp	Williams 2008 typical exp	SJEP Inside FERC yrly avg	(f*365*m)	(j+k)*12 + (n)	(h + l + u)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	(p + r)	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
							$		$	$	$	$	$	$						

(B)(4)
(B)(7)(e)

Total Dehydrators

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
105 Federal Royalty Audit Program
Page
Number: 1138

DRAFT 11/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd				Williams Asset Schedule	CompDeliy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(j*365*m)	((e+k)*12 + (n)	(h + l + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		s	t	u

(B)(4)
(B)(7)(e)

(B)(7)(e)

Subtotal Pipeline & Allowed Boostar Compressors
Grand Total

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + an[illegible] expense not included in TME

(B)(7)(e)

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative

(B)(4) (B)(7)(e)

0.8363

11/3/08
11-3-2008 Revised Manzanares System Costs
JAM

Prepared by: Julie Markhor Date: 11/3/08
Reviewed by _____Date:_____
Work paper: Manzanares Cost

002935

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehyd rators	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk						Williams Asset Schedule	Comp/Dehy/PP ROI exp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i + l)	col (m) subtotal/col (m) total	(B)(4)	(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

Used 2008 typical e

Prepared by: Jim Maddux Date 11/10/08
Reviewed by _____ Date _____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
28% Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs		Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel per Bbl	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP Bbl wp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i +l)	col (m) subtotal/col (m) total	$52,210,352 (subtotal col n)* 52,510,952	(m + o)	col (q) subtotal/col(p) Total		Williams 2006 typical exp	(col(r) subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

Prepared by Jake Maddox Date 11/10/08
Reviewed by _____ Date _____
Work Paper Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd rators				Williams Asset Schedule	Comp/Dehy/PF ROI etc	Williams 2006 typical exp	Williams 2006 typical exp	[j+k]/12	[h + l +i]	col (m) subtotal/col (m) total	(B)(4)	[m + o]	col (p) subtotal/col(p) Total		Williams 2006 typical exp	total subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(7)(e)

(B)(4)

Prepared by: Julie Medina Date: 11/10/08
Reviewed by:_____ Date _____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams Asset Schedule	Comp/Dehy/PP ROI xls	Williams 2006 typical exp	Williams 2006 typical exp	(g+k+l+1)	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
Sims Mesa																		
Sims Mesa																		
Sims Mesa																		
Trunk A																		
Subtotal Dehydrators																		
Subtotal Pipeline & Allowed Booster Compressors																		
Grand Total																		

(B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel incl/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares system Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	BJEP inside FERC y/y avg	(l*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	(g + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
(B)(4) (B)(7)(e)																				Includes $2,700 overghaul allocation.
Subtotal Compressors																				

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Con Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcfd	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyrs				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(f*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total	(B)(4)	(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
(B)(4) (B)(7)(e)																				Includes $2,700 overahaul allocation
Subtotal Compressors																				

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model/ Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operations	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI w/p	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP inside FERC yrly avg	(f*365*m)	(j+k)*12 + (n)	(h + l + o)	col (p) subtotal/col (g) total	(B)(4) (B)(7)(e)	(p + r)	col (s) subtotal/col(s) Total	
							$	$	$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		s	t	u

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model/ Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map							Williams Asset Schedule	Comp/Bldg/PP ROI exp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(i*365*n)	[l+k]*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
							$		$	$	$	$	$	$						
(B)(4) (B)(7)(e)																				
Subtotal Dehydrators																				
(B)(4) (B)(7)(e)																				
Subtotal Pipeline																				
Grand Total																				

(B)(4) (B)(7)(e)

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
Where (O & M) = operating & maintenance
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

0 8425

Pipeline

Legacy Location Description	In Service Date	Yearly Cost
[redacted]		
(B)(4) (B)(7)(e)		
Grand Total		(B)(4)

Compressors.

Legacy Location Description	In Service Date	Yearly Cost
	(B)(4) (B)(7)(e)	
Grand Total		(B)(4)

(B)(4)
(B)(7)(e)

Dehydrators

Legacy Location Description	Yearly Costs
(B)(4) (B)(7)(e)	

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

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(B)(7)(e)

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(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
Grand Total
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(7)(e) (B)(4)

(B)(4)
(B)(7)(e)

NEW MEXICO

SCALE NONE

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Manzanares Compressors
As of 12-31-2006

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	In Service First/Second Half Year	Service Life	Remaining Life	Salvage Value	Original Cost	Accum Depreciation	Net Book Value
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12						(B)(7)(e)						
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23					(B)(4)							
24					(B)(7)(e)							
25												
26												
27												
28												
29												
30												
31												
32												
33												
34												
35												
36												

Fuel 12
Fuel

Williams Manzanares Fuel and Loss

(B)(4)
(B)(7)(e)

MMBtu	January-06	July-06

Gathering Fuel

(B)(4)
(B)(7)(e)

MMBtu	January-06	July-06

(B)(4)

(B)(7)(e)

MMBtu	January-06	July-06
(B)(4) (B)(7)(e)		

Plant Fuel

(B)(4) (B)(7)(e)

Plant Fuel

(B)(4)	(B)(7)(e)

Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Thursday, April 24, 2008 8:58 AM
To: Maddux, Julia, TRD
Subject: RE: Request

Julia

Looking at your request I see a few things I'd supplement.

(B)(7)(e)

Thanks for letting me take a look at your request.

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Wednesday, April 23, 2008 10:50 AM
To: Ernest, Mike
Subject:

Mike,

Is this what you have in mind for the changes to the data request?

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number 1138

Manzanares System

Date	Data Request #	Status			Comments
		Received	Date Rcvd	Outstanding	
5/10/2007	1			X	Expect to receive week of April 25th, 2008
11/27/2007	2	X	2/27/2008		Received February 2008
4/24/2008	3			X	Due May 26, 2008

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Thursday, March 20, 2008 2:09 PM
To: 'Ernest, Mike'
Subject: Contract 15211 Conoco

Mike –

The first page is a cover page with contract # 15211 on upper right hand corner. You might have to rotate the page to see the contract number. Gilbert gave us copies of several contracts from a Conoco audit.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Monday, April 21, 2008 11:38 AM
To: 'Ernest, Mike'
Subject: RE: Manzanares - Data request 3

Mike,

I did not use the same format because we sent a letter instead of our data request. Mary Williams told us not to send a letter.

I did not use PIMS terminology because Charlie said he did not know what you were talking about, he does not use that term, I will change it to include that verbage.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, April 21, 2008 11:11 AM
To: Maddux, Julia, TRD
Subject: RE: Manzanares - Data request 3

Julia

I'm looking at your data request number three. I hate the form over substance judgments but the document style and format used in the State of New Mexico's first two data requests to Williams are becoming a standard form here. Just an early thought but if you'd like to change the style let's get something you like and memorialize it.

For Item 1, it may be useful to get which year an asset was placed in service. I'm thinking 1st half and last half of the year.

For Item 2, I believe the control room application is called PIMSView. If you look at your PIMSView screen print from the Val Verde system or the Chaco plant you'll see the header "PIMSView [name of plant or asset] and the print date and time. I'd say Williams sends the PIMSView screen print for the Manzanares system and subsets of the (B)(7)(e) I'd guess the headers we want would look like:

PIMSView [Manzanares]
PIMSView (B)(4) (B)(7)(e)
PIMSView
PIMSView

For Item 3, I believe Item 2 covers the pressures we want at this stage. If they don't provide the pressures we

want we can ask for the historical data. I believe that data is found using the PointMonitor module of the PIMSView software. I'll see if I can get some background on this software.

A generic acronym PIMS is translated as Pipeline Integrity Management System.

That's it from here. I started this e-mail early and I'm just getting the chance to finish it. Sorry for the delay.

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, April 21, 2008 7:40 AM
To: Ernest, Mike; Morris, James
Subject: Manzanares - Data request 3

Mike & Jim –

Here is a draft of Data Request 3. Let me know if there is anything that needs to be changed or added.

Thanks

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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This inbound email has been scanned by the MessageLabs Email Security System.

New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: Manzanares System Request #6

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	January 9, 2009	January 30, 2009

Information Requested:

1. G & A, O & M for 2007
2. Changes in rental fees
3. Asset deletions or additions to depreciation schedules for the years 2003, 2004, 2005 and 2007.

Representative Requesting Data: Julia Maddux

Signature of Firm's Representative: _____

Date Received by 205 Representative: _____

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the

audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

The Trade Secrets Act, 18 U.S.C. Section 1905, and the Outer Continental Shelf Lands Act, 43 U.S.C. 1352(c), contain provisions to protect the confidentiality of information provided to the Federal Government. Department of Interior regulations implementing the requirements of the Freedom of Information Act are at 43 CFR § 2.11. The MMS/State audits are conducted in accordance with the professional standards of the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to use due professional care when conducting audits. These include the use of good judgment to ensure that all confidential information provided the Federal Government is protected. The MMS/State will, in all cases, protect the confidentiality of privileged or proprietary information provided to MMS/State auditors by Williams or their subsidiaries. Such information, however, will be subject to the provisions of the Freedom of Information Act.

Maddux, Julia, TRD

From: Bracher, Chad [Chad.Bracher@Williams.com]
Sent: Friday, January 09, 2009 12:01 PM
Subject: Read: Manzanares System

Your message

To: Chad.Bracher@Williams.com
Subject:

was read on 1/9/2009 12:01 PM.

Maddux, Julia, TRD

From: Brown, Charles R. [Charlie.Brown@Williams.com]
Sent: Friday, January 09, 2009 11:28 AM
Subject: Read: Manzanares System

Your message

To: Charlie.Brown@Williams.com
Subject:

was read on 1/9/2009 11:28 AM.

Calculation Cross Check Unbundling Percentage Sheet to Source

Depreciation						
Unbundled % calculation	Comp	Dehy	Pipeline	Total	Variance	Grand totals
Known						
'Uknown						
Comp Adj						(B)(4)
Source	(B)(4)					(B)(7)(e)
	(B)(7)(e)					
Comp Adj						
Ext Known						
' Unknown						
# Ext comp						
Wes Known						
Unknown						

Calculation Cross Check Unbundling Percentage Sheet to Source

ROI					
Unbundled % calculation	Comp	Dehy	Pipeline	Total	Grand Totals
Known					
'Uknown		(B)(4)			(B)(4)
Comp Adj					
		(B)(7)(e)			(B)(7)(e)
Source					
Comp Adj					
Ext Known					
Unknown		(B)(4)			
# Ext comp	(B)(7)(e)	(B)(7)(e)			
Wes Known					
Unknown					

For Year 2007

1. Determine Changes in Assets for each year by Service Date. Filter out later years Received changes to assets from (B)(4) (B)(7)(e)	☑ Compressor Asset Schedule	☑ Dehydrator Asset Schedule	☑ Pipeline Asset Schedule	NA Monthly Expense workpaper	NA Cost Workpaper
2. Make changes to depreciation schedules. Changed (B)(4) (B)(7)(e)	☑ Compressor Asset Schedule	☑ Dehydrator Asset Schedule	☑ Pipeline Asset Schedule	NA Monthly Expense workpaper	NA Cost Workpaper
3. Recalculate ROI for compressors, dehydrators and pipeline (adjust BBB rate each year and check regulations to see if ROI rate changed)	☑ Compressor	☑ Dehydrator	☑ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
4. Recalculate monthly expenses	☐ Compressor	☐ Dehydrator	☐ Pipeline	☑ Monthly Expense workpaper	☐ Cost Workpaper
5. Update Depreciation and ROI by equipment wp, compressors and dehydrators	☑ Compressor	☑ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☐ Cost Workpaper
6. Update Cost wp for Monthly expense, yearly depreciation costs, ROI	☐ Compressor	☐ Dehydrator	☐ Pipeline	☐ Monthly Expense workpaper	☑ Cost Workpaper

BBB = .0647 for 2007
ROI rate = 1.3 times BBB

Allowed
Disallowed

(B)(7)(e) (B)(4)

Allowed
Disallowed

gm 2-18-09

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 5-20-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Final mult'd	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 5-20-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
Subtotal Compressors															

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 5-20-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(e)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 5-20-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)									(B)(7)(e)	
Subtotal Dehydrators															(B)(4) (B)(7)(e)

Allowed Costs

					(B)(4) (B)(7)(e)		(B)(7)(e) (B)(4)		(B)(7)(e)	(B)(7)(e)	(B)(7)(e)				

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 5-20-2009

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk		Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)														(B)(4)	(B)(7)(e) (B)(4)
Subtotal Pipeline & Allowed Booster Compressors															
Grand Total															

Allowed Disallowed	(B)(4)	Allowed Fuel Disallowed Fuel	(B)(4)
	(B)(7)(e)		(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are (B)(4) (B)(7)(e)

2007 Manzanares Pipeline Depreciation Costs

Line	Legacy Location Description	(B)(4)
4101		
4102		
4103		
4104		
4105		
4106		
4107	(B)(4)	
4108		
4109	(B)(7)(e)	
4110		
4111		
4112		
4113		
4114		
4115		
4116	**Grand Total**	

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	
	Total Units		
Dehydrators Units			
Total Unidentified Location Depreciation			4
Total Unidentified Location ROI			0
Units			
(B)(4) (B)(7)(e)			
Units			
(B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units			
(B)(7)(e) (B)(4)			
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			
Units			
(B)(4)			
Units			
(B)(7)(e) (B)(4)			

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total			
Units				
Units (B)(4) (B)(7)(e)				
Units (B)(4) (B)(7)(e)				
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)			(B)(4)	
Units (B)(4)				
Units (B)(4)				
Units (B)(4) (B)(7)(e)				

MANZANARES 2007

DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total			
Units	(B)(4)		(B)(4)	
Sims Mesa Depreciation	(B)(7)(e)		(B)(7)(e)	(B)(4)
Sims Mesa ROI				(B)(7)(e)

	Total Dehydration Depreciation	Total Dehydrators	**Total Dehydrators**
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

	Total Dehydration ROI
Total from Capital Costs wp	
Total Dehydrators	

(B)(4)

(B)(7)(e) For From Williams Asset Schedule see Capital Cost

All Dehydrators are owned by Williams, (B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Manzanares Pipeline
As of 12-31-2007

Line	Legacy Location Description	Yearly Cost
	[redacted]	
	(B)(7)(e)	
	(B)(4)	
4116		
	Grand Total	[redacted]

(B)(7)(e)

Manzanares Pipeline
As of 12-31-2007

Pipeline ROI

BBB 2007 .0647 *
1.3

Line	Legacy Location Description	
	[redacted]	
	(B)(4)	
	(B)(7)(e)	
	[redacted]	
4116	Grand Total	[redacted]

(B)(7)(e)

2007 Cost Recap & Comparison

	Yearly Cost Direct Depreciation	ROI
Compression		
Dehydration	(B)(4)	
Pipeline		
Totals		
Cost Workpaper	(B)(7)(e)	
Variance		

Rumsey

New Mexico Oil & Gas Bureau
2005 Federal Royalty Audit Program
Cost Project

Project Number: 1138

Disallowed Costs

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Final 2-26-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(l)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)	

Prepared by: Julia Macdux Date: 2/16/09
Reviewed by: _____ Date: _____
Workpaper Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Disallowed Costs

Final 2-26-2009

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (p) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
														0	0
30-6	B	NA	Dehy	20	Ethylex		0	4,423	0	4,079	12,000	21,501			

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Disallowed Costs

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Final 2-26-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel meld	Unbundled Percentage for fuel col(e)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanaras Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (m:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	subtotal/col (e) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p

(B)(4)

(B)(7)(e)

(B)(7)(e)

Prepared by: Julia Maddox Date: 2/16/09
Reviewed by: _____Date: _____
Workpaper Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Final 2-26-2009

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
					(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)	
Subtotal Dehydrators															(B)(4) (B)(7)(e)

Allowed Costs

(B)(7)(e)							(B)(7)(e)		(B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)			

New Mexico Oil & Gas Bureau
105 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 2-26-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (d) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(7)(e)	(B)(7)(e) (B)(4)				(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)		(B)(4)
Subtotal Pipeline & Allowed Booster Compressors					(B)(7)(e)										
Grand Total															

Allowed Disallowed	(B)(4) (B)(7)(e)	Allowed Fuel Disallowed Fuel	(B)(4) (B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are owned by Williams (B)(4)
(B)(7)(e)

2007 Compression Depreciation

Legacy Location Description	Yrly Cost
(B)(4)	
(B)(7)(e)	
Grand Total	(B)(7)(e)

Unknown Compressor Locations from Compressor Depreciation Schedule 2007

	Yearly Cost
(B)(4) (B)(7)(e)	
Total Unkown Depreciation	

Manzanares Compressors
As of 12-31-2007

Line	Legacy Location Description	Yrly Cost	Undepreciated Bal Beginning of Year	BBB 2007 (B)(4)
	(B)(4) (B)(7)(e)			

Unknown Compressor Locations ROI 2007

(B)(4)
(B)(7)(e)

Unknown locations provided by Williams (Williams called these "Indirect Locations")

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c	
	Total Units		
Dehydrators Units			
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			
Units (B)(4) (B)(7)(e)			
Units (B)(7)(e) (B)(4)			
Units (B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
Units (B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	
Units (B)(4)			
Units (B)(4)			
Units (B)(4) (B)(7)(e)			

MANZANARES 2007
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total			
Units (B)(7)(e) (B)(4)				
Units (B)(7)(e) (B)(4)				
Units (B)(7)(e) (B)(4)				
Units (B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)
Units (B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)	
Units (B)(7)(e) (B)(4)				
Units (B)(7)(e) (B)(4)				
Units (B)(4)		1 1		
Units (B)(7)(e) (B)(4)		1		

MANZANARES 2007

DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

	Total				
Units			(B)(4)		
Sims Mesa Depreciation	(B)(4)		(B)(7)(e)		(B)(4)
Sims Mesa ROI	(B)(7)(e)				(B)(7)(e)

	Total Dehydration Depreciation		Total Dehydrators	Total Dehydrators
Total from Capital Costs wp	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
	Total Dehydration ROI			
Total from Capital Costs wp	(B)(4) (B)(7)(e)		Total Dehydrators	

= From Williams Asset Schedule see Capital Cost

All Dehydrators are (B)(4) (B)(7)(e)

Manzanares Dehydrators
As of 12-31-2007

Line	Legacy Location Description	Yearly Costs
	(B)(7)(e)	
	(B)(4)	
	Grand Total	

2007 Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)
(B)(7)(e)

Total Unkown Depreciation

2007 ROI for Unknown Dehydration Locations from Dehydration Depreciation Schedule

(B)(4)
(B)(7)(e)

Total Unkown ROI

Manzanares Dehydrators

As of 12-31-2007

Legacy Location Description Total	
(B)(4) (B)(7)(e)	
Grand Total	

Manzanares Pipeline
As of 12-31-2007

Line	Legacy Location Description	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2007 .0647 * 1.3
	(B)(4) (B)(7)(e)			
(B)(4) (B)(7)(e)	Grand Total		(B)(4)	(B)(7)(e)

Manzanares Pipeline
As of 12-31-2007

RDT

BBB 2007 .0647 *
1.3

Line	Legacy Location Description
	(B)(4) (B)(7)(e) (B)(7)(e)
(B)(4) (B)(7)(e)	Grand Total

(B)(4)

(B)(7)(e)

Company Profile
Asset Portfolio
Four Corners
Wamsutter System
Discovery Producer Services
Conway
Carbonate Trend Pipeline
Executive Management
Steven J. Malcolm
Donald R. Chappel
Alan S. Armstrong
James J. Bender

Four Corners

Four Corners is one of the largest gatherers in the San Juan Basin of New Mexico and Colorado. Four Corners' assets are comprised of more than 3,500 miles of gathering lines, with 6,400 receipt points, and five natural gas processing and/or treating plants. The gathering capacity of these systems is 2 billion cubic feet of natural gas per day. The plants have the combined capacity to process and treat approximately 1.5 billion cubic feet of natural gas per day and to produce 41,000 barrels of natural gas liquids per day. Four Corners' systems have interconnections with the facilities of Williams' Northwest Pipeline, PNM, El Paso Natural Gas, Southern Trails and Transwestern.

News & Media

12/13/2006

Williams Partners L.P. Completes Acquisition of Remaining Interest in Four Corners from Williams

TULSA, Okla. – Williams Partners L.P. (NYSE:WPZ) and Williams (NYSE: WMB) announced today that Williams Partners has completed its acquisition of the remaining 74.9 percent interest in Williams Four Corners LLC that it did not own from Williams (NYSE:WMB) for $1.223 billion. Williams Partners now owns 100 percent of Four Corners.

Williams Partners completed the transaction after successfully closing a $600 million private debt offering of senior unsecured notes due 2017, a private equity offering of approximately $350 million of common and Class B units, and a public equity offering of 8.05 million common units that yielded net proceeds of approximately $293.7 million.

The net proceeds of the public equity offering include exercise, in full, by the underwriters of their option to purchase additional common units to cover over-allotments.

"This acquisition makes Four Corners – with its stable cash flows and a relatively high percentage of fee-based revenues – the cornerstone of Williams Partners' asset portfolio and enhances our ability to generate stable cash flows for our unitholders," said Alan Armstrong, chief operating officer of the general partner of Williams Partners.

The board of directors of the general partner of Williams Partners approved the transaction based on a recommendation from its conflicts committee. The conflicts committee, which is comprised entirely of independent directors, retained independent legal and financial advisers to assist it in evaluating and negotiating the transaction.

Steve Malcolm, chairman, president and chief executive officer of Williams, said the transaction is also advantageous to Williams.

"While Williams will maintain operational control of Four Corners, the low-cost capital raised through this transaction can be invested in areas where the company is actively pursuing disciplined growth," Malcolm said.

Four Corners owns certain gathering, processing and treating assets in the San Juan Basin in Colorado and New Mexico. These assets are comprised of:

- a 3,500-mile natural gas gathering system in the San Juan Basin in New Mexico and Colorado with capacity of 2 billion cubic feet per day;
- the Ignacio natural gas processing plant in Colorado and the Kutz and Lybrook natural gas processing plants in New Mexico, which have a combined processing capacity of 760 million cubic feet per day; and
- the Milagro and Esperanza natural gas treating plants in New Mexico, which are designed to remove carbon dioxide from up to 750 million cubic feet of natural gas per day.

Citigroup and Lehman Brothers acted as financial advisors to Williams in connection with this transaction.

About Williams (NYSE:WMB)
Williams, through its subsidiaries, primarily finds, produces, gathers, processes and transports natural gas. The company also manages a wholesale power business. Williams' operations are concentrated in the Pacific Northwest, Rocky Mountains, Gulf Coast, Southern California and Eastern Seaboard. More information is available at www.williams.com.

About Williams Partners L.P. (NYSE:WPZ)

Williams Partners L.P. primarily gathers, transports and processes natural gas and fractionates and stores natural gas liquids. The general partner is Williams Partners GP LLC. More information is at www.williamslp.com.

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Sharna Reingold
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(918) 573-2078

# # #

Williams' reports, filings, and other public announcements might contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of Private Securities Litigation Reform Act of 1995. You typically can identify forward-looking statements by the use of forward-looking words, such as "anticipate," believe," "could," "continue," "estimate," "expect," "forecast," "may," "plan," "potential," "project," "schedule," "will," and other similar words. These statements are based on our intentions, beliefs, and assumptions about future events and are subject to risks, uncertainties, and other factors. Actual results could differ materially from those contemplated by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such statements, other factors could cause our actual results to differ materially from the results expressed or implied in any forward-looking statements. Those factors include, among others: changes in general economic conditions and changes in the industries in which Williams conducts business; changes in federal or state laws and regulations to which Williams is subject, including tax, environmental and employment laws and regulations; the cost and outcomes of legal and administrative claims proceedings, investigations, or inquiries; the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions; the level of creditworthiness of counterparties to our transactions; the amount of collateral required to be posted from time to time in our transactions; the effect of changes in accounting policies; the ability to control costs; the ability of each business unit to successfully implement key systems, such as order entry systems and service delivery systems; the impact of future federal and state regulations of business activities, including allowed rates of return, the pace of deregulation in retail natural gas and electricity markets, and the resolution of other regulatory matters; changes in environmental and other laws and regulations to which Williams and its subsidiaries are subject or other external factors over which we have no control; changes in foreign economies, currencies, laws and regulations, and political climates, especially in Canada, Argentina, Brazil, and Venezuela, where Williams has direct investments; the timing and extent of changes in commodity prices, interest rates, and foreign currency exchange rates; the weather and other natural phenomena; the ability of Williams to develop or access expanded markets and product offerings as well as their ability to maintain existing markets; the ability of Williams and its subsidiaries to obtain governmental and regulatory approval of various expansion projects; future utilization of pipeline capacity, which can depend on energy prices, competition from other pipelines and alternative fuels, the general level of natural gas and petroleum product demand, decisions by customers not to renew expiring natural gas transportation contracts; the accuracy of estimated hydrocarbon reserves and seismic data; and global and domestic economic repercussions from terrorist activities and the government's response to such terrorist activities. In light of these risks, uncertainties, and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.
In regard to the company's reserves in Exploration & Production, the SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves. We have used certain terms in this news release, such as "probable" reserves and "possible" reserves and "new opportunities potential" reserves that the SEC's guidelines strictly prohibit us from including in filings with the SEC. The SEC defines proved reserves as estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs under the assumed economic conditions. Probable and possible reserves are estimates of potential reserves that are made using accepted geological and engineering analytical techniques, but which are estimated with reduced levels of certainty than for proved reserves. Possible reserve estimates are less certain than those for probable reserves. New opportunities potential is an estimate of reserves for new areas for which we do not have sufficient information to date to raise the reserves to either the probable category or the possible category. New opportunities potential estimates are even less certain that those for possible reserves. Reference to "total resource portfolio" include proved, probable and possible reserves as well as new opportunities potential. Investors are urged to closely consider the disclosures and risk factors in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2006, and our quarterly reports on Form 10-Q available from our offices or from our website at www.williams.com.

Williams Partners' reports, filings and other public announcements might contain or incorporate by reference forward-looking statements – statements that do not directly or exclusively relate to historical facts. You typically can identify forward-looking statements by the use of forward-looking words, such as "anticipate," believe," "could," "continue," "estimate," "expect," "forecast," "may," "plan," "potential," "project," "schedule," "will" and other similar words. These statements are based on our intentions, beliefs and assumptions about future events

Fee Allocation Logic

Presented to
State of New Mexico Revenue Department
and
US Minerals Management Service
on
December 18, 2008

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- Gathering Portion of Fee
  - Compression
  - Dehydration
  - Pipeline
  - NOT Plant, Processing or Treating

- Compression Operating Costs
  - Exterran Owned & Exterran Operated
  - Williams Owned & Exterran Operated
  - Williams Owned & Williams Operated
  - Overhaul Reserve
  - Fluids

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- Exterran Operated
  - (B)(4)
  - Used as (B)(4)
- Components
  - Depreciation, Direct & Indirect & Area
  - ROI, Direct & Indirect & Area
  - (B)(4)
  - Compression Operating Costs
  - Dehydration Operating Costs
  - Pipeline Operating Costs
    - Assumed to be Remainder of Operating Costs

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- Break-Out by Compressor
  - Direct
  - Indirect
  - Area
  - Allocation by Compressor
    - Unit Costs – Half of Total Allocated Only to Williams Units
    - Appurtenances Costs – Half of Total Allocated to All Units
    - Allocation by Number of Compressors

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- 2006 Total Manzanares Gathering Costs = (B)(4)
  - Compression Cost = $ (B)(4) %
  - Dehydration Cost = $ (B)(4) %
  - Pipeline Cost = $ (B)(4) %

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Williams Dehydration Unit
Exhibit "B"

Site	Manuf.	Capacity	Comments
	(B)(7)(e) (B)(4)		
			(B)(4)
			(B)(4)

Site	Manuf.	Capacity	Comments
[redacted]	[redacted]	[redacted]	

(B)(7)(e)

(B)(4)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES GATHERING SYSTEM

INLET	*OUTLET*		
	(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	• **Manzanares Gathering System** handles • (B)(7)(e) (B)(4) • • •
(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	• **CDP** (central delivery point) • (B)(4) (B)(7)(e) • •

Bulk File# _____

Preparer/Date: MAM 11/20/2007
Reviewer/Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES GATHERING SYSTEM

INLET	*OUTLET*		
(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(7)(e)
(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(7)(e)
(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Bulk File# _____

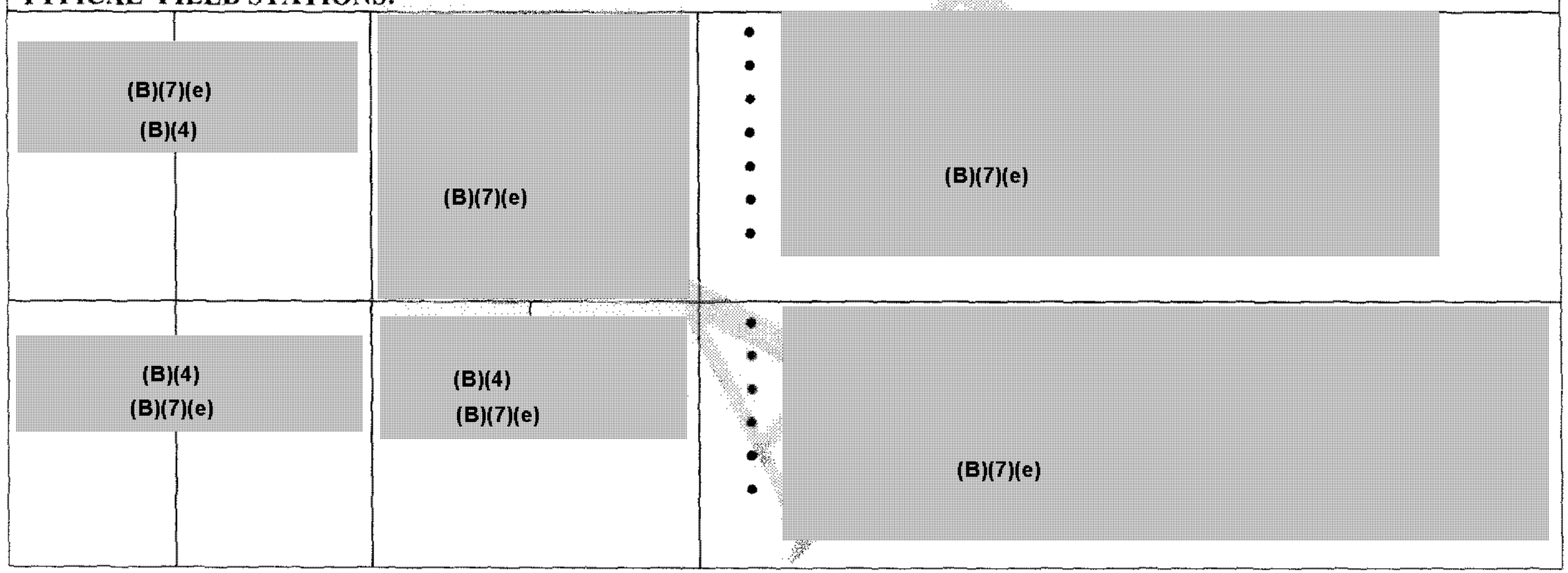
Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES GATHERING SYSTEM

INLET *OUTLET*

TYPICAL FIELD STATIONS:



Questions for MMS, based on the Devon decision:

1. Is typical field compression at CDP allowed?
2. Is typical field dehydration at CDP allowed?
3. Is compression at the Booster Stations allowed?
4. Is compression at El Cedro plant allowed?
5. Is dehydration at El Cedro plant allowed?
6. Is compression at Milagro plant allowed?
7. Is dehydration at Milagro plant allowed?

Bulk File# _____

Preparer/Date: **MAM 11/20/2007**
Reviewer/Date:
Work Paper Number: **E2**

New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
(505) 827-0341
Administrative Services
(505) 827-0369
Audit and Compliance
(505) 827-0900
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

November 27, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles R. Brown
Midstream Gas and Liquids
One Williams Center
P.O. Box 645
Tulsa, OK 74172

SECOND REQUEST FOR INFORMATION RESPONSE DUE FEBRUARY 29, 2007

Dear Mr. Charles R. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information following the tour of the Manzanares plant and system July 17, 2007. We understand that producers generally (B)(4) (B)(4) We are asking your assistance in providing us further information on your in order to determine the allowable costs of transportation per MMS regulation 30 CFR § 206.156.

What information is requested?

- Costs for typical equipment in order to determine the percentage of fee per equipment (see diagram)
- Information necessary to validate the costs stated above i.e. operational, maintenance, and capital including depreciation
- List of producers by year for the last five (5) years

Charles R. Brown
Mid-Stream Gas and Liquids

What is our authority?
Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and 30 U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212 (2006).

Failing to provide requested information necessary for us to complete our audits may be treated as a knowing or willful violation under 30 CFR 241.51 (2006). Your response is due February 29, 2008.

What if you have questions?

If you have any questions, please contact Julia Maddux at (505) 222-6616, Julia.Maddux@state.nm.us, or Maryann Maberry at (505) 827-9818, Maryann.Maberry@state.nm.us.

Sincerely,

Jack Longee, Federal Royalty Audit Supervisor
205 Federal Royalty Audit Program

Charles R. Brown
Mid-Stream Gas and Liquids

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

John Price, Chief of Enforcement
Minerals Management Service
Mineral Revenue Management
Office of Enforcement
P.O. Box 25165, MS 370B2
Denver, CO 80225

Morris Miller
Williams Production Company
P.O. Box 3102, MD 37-5
Tulsa, OK 74101

MEMORANDUM

TO: Lorraine McGuinness

From: Julia Maddux

Date: December 6, 2007

Subject: Mailing Project: 1138 (Second Data Request)

Please Mail the attached document to the following :

Original: - Certified Return Receipt

Mr. Jose Velasquez
Director San Juan/Val Verde
Enterprise Products
614 Relilly Avenue
Farmington, NM 87401

Copies To:

1. Mike Ernest
   Minerals Management Service
   Minerals Revenue Management
   Onshore Compliance and Asset Management
   P.O. Box 25165, MS 392B2
   Denver, CO 80225

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Thursday, April 24, 2008 1:41 PM
To: 'Charlie.Brown@Williams.com'; 'Chad.Bracher@Williams.com'
Cc: 'Ernest, Mike'
Subject: Manzanares System Data Request #3

Subject: Manzanares System Data Request # 3

Charlie & Chad,

I have attached the data request for additional information following our teleconference on April 18th.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: Manzanares System Request #3

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	April 24, 2008	May 26, 2008

Information Requested:

We have reviewed the information submitted and following the teleconference held on April 18, 2008 we determined that the following additional information is needed.

1. For the compressors, dehydrators and pipe owned by Williams please provide the following information on the Manzanares System,
   a. Original cost
   b. What year was the asset placed in service, and if it was the first half or second half of the year.
   c. Salvage value
   d. Service life
   e. Depreciation method
      i. Life of Asset – Life of Reserves

2 Computer screen prints of the PIMS control room monitor of the Manzanares system. We request screen prints of these views or their equivalent naming conventions:
PIMSView [Manzanares]
PIMSView [El Cedro Complex] or PIMSView [El Cedro Esperanza]
PIMSView [Booster A]
PIMSView [Booster B]

Representative Requesting Data: Julia Maddux

Signature of Firm's Representative: _____

Date Received by 205 Representative: _____

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

The Trade Secrets Act, 18 U.S.C. Section 1905, and the Outer Continental Shelf Lands Act, 43 U.S.C. 1352(c), contain provisions to protect the confidentiality of information provided to the Federal Government. Department of Interior regulations implementing the requirements of the Freedom of Information Act are at 43 CFR § 2.11. The MMS/State audits are conducted in accordance with the professional standards of the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to use due professional care when conducting audits. These include the use of good judgment to ensure that all confidential information provided the Federal Government is protected. The MMS/State will, in all cases, protect the confidentiality of privileged or proprietary information provided to MMS/State auditors by Williams or their subsidiaries. Such information, however, will be subject to the provisions of the Freedom of Information Act.

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Friday, June 06, 2008 11:17 AM
To: 'Charlie.Brown@Williams.com'
Cc: 'Ernest, Mike'
Subject: Data Request 3 time extension

Charlie,

Here is the signed time extension for Data Request 3 for Manzanares

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Williams

One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

May 29, 2008

Ms. Julia Maddux
Federal Royalty Auditor
New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Santa Fe, New Mexico 87504

RE: Manzanares System Request #3

Dear Ms. Maddux:

On April 24, 2008, Williams received your third request for additional information relating to our Manzanares Gathering System. Although we have been actively working to compile the necessary data, due to the volume of records we will need to review, we do not believe that we will be able to comply with your request by the requested due date. In order for us to more thoroughly review our records and provide a more complete response, we would request a 30-day time extension within which to comply with your request.

We anticipate being able to provide all of the requested data to you by June 25, 2008. If you are in agreement to provide Williams with this 30-day extension, please sign in the space provided below and return one signed copy to me by facsimile to (918) 573-9755.

Thank you for your cooperation and assistance in this matter. If you have any question, please feel free to contact me.

Best regards,

Charles R. Brown
Director, Commercial Development

Accepted and Agreed this 6 day of June, 2008.

By: Jack Lynch
Name:
Title: Audit Supervisor 205 Program New Mexico

Cc: Mike Ernest
Minerals Management Service
Minerals revenue Management
Onshore Compliance and Asset Management
PO Box 25165, MS 392B2
Denver, Colorado 80225

Manzanares Area assets for Compressors, Dehydrators and Pipeline
As of December 31, 2006
COMPRESSORS

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
[redacted]		(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4) (B)(7)(e)					

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number

(B)(4)

(B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
		(B)(4) (B)(7)(e)			

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4)					
(B)(7)(e)					

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4)					
(B)(7)(e)					

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number

(B)(4)

(B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
		(B)(4)			(B)(7)(e)

MEMORANDUM

TO: Lorraine McGuinness

From: Julia Maddux

Date: November 27, 2007

Subject: Mailing Project: 1138 (Second Data Request)

Please Mail the attached document to the following :

Original: - Certified Return Receipt
Mr. Charles R. Brown
Midstream Gas and Liquids
One Williams Center
P.O. Box 645
Tulsa, OK 74172

Copies To:

1. Mike Ernest
   Minerals Management Service
   Minerals Revenue Management
   Onshore Compliance and Asset Management
   P.O. Box 25165, MS 392B2
   Denver, CO 80225

2. Mary Williams
   Minerals Management Service
   Minerals Revenue Management
   Onshore Compliance and Asset Management
   P.O. Box 25165, MS 392B2
   Denver, CO 80225

3. John Price, Chief of Enforcement
   Minerals Management service
   Minerals Revenue Management
   Office of Enforcement
   P.O. Box 25165, MS 370B2
   Denver, CO 80225

4. Morris Miller
   Williams Production Company
   P.O. Box 3102, MD 37-5
   Tulsa, OK 74101

1-26-2009

ROCKY MOUNTAIN MINERAL LAW FOUNDATION

Tel: 303-321-8100
Fax: 303-321-7657

9191 Sheridan Blvd., Suite 203
Westminster, CO 80031 USA

E-Mail: info@rmmlf.org
www.rmmlf.org

Chad Braches —

(B)(7)(e) (B)(4)

Not Allowed

(B)(7)(e) (B)(4)

(B)(4)
(B)(7)(e)

Jack agreed.

11/5/08

Teleconference notes:

State NM	MMS
Jack Lougee	Geary Keeton
Julia Maddux	

A teleconference was held on November 5, 2008 to discuss Enterprises' response to Geary Keeton's email about the status of New Mexico's data request for cost information and possibility [redacted]

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(7)(e)

(B)(7)(e)

Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Tuesday, September 02, 2008 10:20 AM
To: Maddux, Julia, TRD
Subject: RE: Price

El Paso San Juan non Bondad Oct 2006
Inside FERC FOM spot price - 3.43
Gas Daily midpoint average - Oct - 5.001

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Tuesday, September 02, 2008 10:02 AM
To: Ernest, Mike
Subject: Price

Mike,

I goofed on my request. I actually need October 2006.

El Paso San Juan non Bondad October 2006
Inside FERC FOM spot price.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Tuesday, September 02, 2008 9:05 AM
To: Maddux, Julia, TRD
Subject: RE: Price

Julia

El Paso San Juan non Bondad Nov 2006
Inside FERC FOM spot price - 6.39
Gas Daily midpoint average - Nov - 5.922

Hey, I'm missing some OPIS prices for Conway Kansas Group 140 and for Mt. Belvieu TET and non TET. Can you send me some of these prices?

Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Tuesday, September 02, 2008 8:28 AM
To: Ernest, Mike
Subject: Price

Hello Mike,

Hope you had a nice weekend.

Can you get me the Monthly average price for:

El Paso Natural Gas San Juan Basin for the month of

November 2006.

I have the prices for the other months. We are missing November

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Tuesday, November 20, 2007 9:24 AM
To: 'Ernest, Mike'
Subject: RE: Revised data request

Mike,

I'll correct the Midstream in the letter. The diagram is Maryann's, she is not available today to change it.

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Tuesday, November 20, 2007 7:48 AM
To: Maddux, Julia, TRD
Subject: RE: Revised data request

Julia

Looks good. Two minor things:

1. Midstream is not hyphenated.

2. The diagram seems to imply to a flow chart. It appears the flow begins on page one and continues down through the various steps. Maybe a flow chart for each branch which would include the various parts of your current diagram or break it down to stand alone pieces.

If you want to send it to Charlie for tomorrow's meeting here is his e-mail address:

Charlie.Brown@Williams.com
Mike

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Tuesday, November 20, 2007 7:30 AM
To: Ernest, Mike
Subject: Revised data request

Mike,

Here is the revised data request and Manzanares diagram.

Julia Maddux
Federal Royalty Auditor

Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Produced wellhead pressure from water disposal system

MANZANARES GATHERING SYSTEM

INLET *OUTLET*

(B)(4)

(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 8/28/2007**
Reviewer/Date:
Work Paper Number: **E2**

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
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(B)(4) (B)(7)(e)

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Preparer/Date: MAM 8/28/2007
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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES GATHERING SYSTEM

INLET *OUTLET*

TYPICAL FIELD STATIONS:

(B)(4)
(B)(7)(e)

Questions for MMS, based on the Devon decision:

1. Is typical field compression at CDP allowed?
2. Is typical field dehydration at CDP allowed?
3. Is compression at the Booster Stations allowed?
4. Is compression at El Cedro plant allowed?
5. Is dehydration at El Cedro plant allowed?
6. Is compression at Milagro plant allowed?
7. Is dehydration at Milagro plant allowed?

Bulk File# _____

Preparer/Date: **MAM 8/28/2007**
Reviewer/Date:
Work Paper Number: **E2**

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Monday, November 19, 2007 9:00 AM
To: 'Ernest, Mike'
Subject: Manzanares 2nd data request
Importance: High

Mike,

We have drafted the 2nd data request. Look it over to see if it is okay, check for any changes you think need to be made. Jack would like for us to get this to Charlie today so that it can be included in the conversation on Wednesday. I'm sending the diagram in a separate email.

Thanks

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
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(505) 827-0369
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(505) 827-2296
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Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

November 19, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles R. Brown
Mid-Stream Gas and Liquids
One Williams Center
P.O. Box 645
Tulsa, OK 74172

SECOND REQUEST FOR INFORMATION RESPONSE DUE THIRTY DAYS FROM RECEIPT OF THIS LETTER

Dear Mr. Charles R. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information following the tour of the Manzanares plant and system July 17, 2007. We understand that producers generally (B)(4) (B)(7)(e) and/or treating. We are asking your assistance in providing us further information on your bundled services in order to determine the allowable costs of transportation per MMS regulation 30 CFR § 206.156.

Charles R. Brown
Mid-Stream Gas and Liquids

What information is requested?

- Costs for typical equipment in order to determine the percentage of fee per equipment (see diagram).
- Information necessary to validate the costs stated above i.e. operational, maintenance, and capital including depreciation.
- List of producers and actual volumes by year for the last five (5) years

What is our authority?

Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and 30 U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212 (2006).

Failing to provide requested information necessary for us to complete our audit may be treated as a knowing or willful violation under 30 CFR 241.51 (2006).

What if you have questions?

If you have any questions, please contact Julia Maddux at (505) 222-6616, Julia.Maddux@state.nm.us, or Maryann Maberry at (505) 827-9818, Maryann.Maberry@state.nm.us.

Sincerely,

Jack Lougee, Federal Royalty Audit Supervisor
205 Federal Royalty Audit Program

Charles R. Brown
Mid-Stream Gas and Liquids

Encl: Manzanares Gathering System diagram

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

John Price, Chief of Enforcement
Minerals Management Service
Mineral Revenue Management
Office of Enforcement
P.O. Box 25165, MS 370B2
Denver, CO 80225

Morris Miller
Williams Production Company
P.O. Box 3102, MD 37-5
Tulsa, OK 74101

Procedure for Cost Project

1. Request Data
2. Tour
3. Receive Data
4. Determine allowable & non allowable equipment
5. Compile data & ask questions
6. Receive answers
7. Complete preliminary schedules
8. Send schedules to Company & MMS for comment
9. Receive response & make adjustments if needed
10. Finalize & Review
11. Distribute percentages
12. Dear Payor Letter from MMS

Presentation for Valdez 6-17-2009

Table 1
Gathering Portion of Gathering and Treating Fees and Other Deductions

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2007	
2006	
2005	(B)(4)
2004	
2003	(B)(7)(e)

Table 2
Deductable Amount for Gathering Fees

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2007	
2006	
2005	(B)(4)
2004	
2003	(B)(7)(e)

Table 3
Deductable Amount for Gathering Fuel Used

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2007	
2006	(B)(7)(e)
2005	
2004	(B)(4)
2003	

(B)(5)

(B)(7)(e)

(B)(7)(e)

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New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit of: ConocoPhillips
Project # 1158 CCN: 08-00836
Audit Period: January 2002 - December 2007

Additional Royalties Due
Manzanares Property
Agreement 891000464B Fruitland Coal
San Juan 31-6

		MMS-2014 Volumes				Disallowed Transportation		
Month	Lease	Phillips-11223/101	Conoco-18674/103	Burlington-100047/162	Total MMS-2014 Vol	Disallowed Transportation Rate	Disallowed Trans Cost $	Additional Royalties Due on fee
					(sum c:e)	Disallowed Transp Rate wp col (i)	(f*g)	(g* 12.5%)
		mcf	mcf	mcf	mcf	$/mcf	$	$
a	b	c	d	e	f	g	h	i
Sep-04					0			
				51,664	51,664			
		265,558		19,024	284,582			
				51,584	51,584			
		22,127			22,127			
					0		(B)(7)(e)	
				25,744	25,744			
			18,085		18,085		$4,159.55	$519.94
	(B)(4)			51,616	51,616			
		55,242			55,242		(B)(4)	(B)(7)(e)
Total Sep 2004		342,927	18,085	199,632	560,644			
Dec-04					0	(B)(4)		
	(B)(7)(e)			47,064	47,064			
				17,336	17,336	(B)(7)(e)	(B)(7)(e)	
				46,992	46,992		(B)(4)	
		19,899			19,899			
		258,644			258,644			
				23,456	23,456			
			26,559		26,559			
				47,024	47,024			
		49,673			49,673		(B)(4)	(B)(7)(e)
Total Dec 2004	(B)(7)(e)	328,216	26,559	181,872	536,647			

MANZANARES SYSTEM COSTS

YEAR	2003	2004	2005	2006	2007
Allowed Costs					
Disallowed Costs			(B)(4)		
Fuel Allowed			(B)(7)(e)		
Fuel Diasllowed					

6/17/2009Manzanares percentages Revised percentages May 2009
JAM

New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit of: ConocoPhillips
Project # 1158 CCN: 08-00836
Audit Period: January 2002 - December 2007

Disallowed Transportation Rate 2004 - 2005
891000464B Fruitland Coal
San Juan 31-6

Month	Contract Rate	Unbundled Gathering %	Compr,Dehys MC %	Gathering Rate	C02 % WFS	ML C02 %	Royalty Bearing %	Disallowed Rate
	WFS 103 & h-PPCO 18674	(from Williams split)	From Manzanares wp	Phillips Contract 18674 (b*c*d)	Conoco 101/11223 PPCO 103/18674	From Tarrif	1-(f-g)	(Phillips Contract 18674 (e*h)
	$/mcf	%	%	$/mcf	%	%	%	$/mcf
a	b	c	d	e	f	g	h	i
Sep-04								
Dec-04	(B)(7)(e)						(B)(7)(e)	
Jan-05	(B)(4)						(B)(4)	
Jun-05								
Dec-05								

Prepared by: Julia Maddux Date: 5/8/2009
Reviewed by: _____ Date:____
Workpaper :

New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit of: ConocoPhillips
Project # 1158 CCN: 08-00836
Audit Period: January 2002 - December 2007

Manzanares Fuel
Agreement: 89100464B Fruitland Coal
San Juan 31-6

Test Month	Gathering Fuel % from Contract or Invoices %	Royalty Bearing % from Disallowed Trans Rate wp col (j) %	Compression, Dehydration MC Fuel % Manzanares Fuel From Cost wp) %	Non Allowed Fuel % (b*c*d) %
a	b	c	d	e
Sep-04				
Dec-04		(B)(4)		
Jan-05				
Jun-05		(B)(7)(e)		
Dec-05				

Prepared by: Julia Maddux Date: 5/8/09
Reviewed by:____Date:____
Work paper: Fuel

United States Court of Appeals
FOR THE DISTRICT OF COLUMBIA CIRCUIT

Argued September 15, 2008 Decided December 23, 2008

No. 07-5299

DEVON ENERGY CORPORATION,
APPELLANT

v.

DIRK KEMPTHORNE, SECRETARY OF THE INTERIOR,
APPELLEE

Appeal from the United States District Court
for the District of Columbia
(No. 04cv00821)

Deborah B. Haglund argued the cause for appellant. With her on the briefs was *Charles D. Tetrault*.

Erik Milito and *Michele Schoeppe* were on the brief for *amicus curiae* American Petroleum Institute in support of appellant.

Sambhav N. Sankar, Attorney, U.S. Department of Justice, argued the cause for appellee. With him on the brief was *Michael T. Gray*, Attorney. *R. Craig Lawrence*, Assistant U.S. Attorney, entered an appearance.

Before: BROWN, *Circuit Judge*, and EDWARDS and SILBERMAN, *Senior Circuit Judges*.

Opinion for the Court filed by *Senior Circuit Judge* EDWARDS.

EDWARDS, *Senior Circuit Judge*: The United States leases the rights to extract and sell natural gas from lands owned by the Government. In exchange, lessees, like appellant Devon Energy Corporation ("Devon"), agree to pay the United States royalties on the natural gas they are able to produce. This case arises from a final order issued by the United States Department of the Interior ("DOI" or "Interior") requiring Devon retroactively to recalculate royalties owed to the Government pursuant to its lease to extract coalbed methane from federal land in Wyoming.

At issue is the agency's interpretation of its "marketable condition rule." The rule was included as a part of DOI's 1988 Revision of Gas Royalty Valuation Regulations, which establish the framework for calculating the royalty value of coalbed methane gas production. In its disputed order, DOI held that the marketable condition rule precluded Devon from deducting certain costs associated with compression and dehydration when calculating the "gross proceeds" upon which royalties are owed. DOI determined that gas cannot enter a pipeline and move to a purchaser unless it meets the requirements of the pipeline, which typically requires compression to raise its pressure and dehydration to reduce its water content. Thus, DOI concluded that if gas is not sufficiently compressed and dehydrated to be deliverable to the point of purchase through the pipeline, it is not in marketable condition. Devon filed suit in the District Court to challenge Interior's order. The District Court denied Devon's motion for summary judgment and granted the Secretary's cross-motion. On appeal, Devon argues that DOI's order is inconsistent with the plain language of the marketable condition rule, and also inconsistent with DOI's own prior interpretation of the rule.

We affirm the judgment of the District Court. First, we find that Interior's interpretation of the marketable condition rule

reflects a perfectly reasonable construction of the rule. It is clear that the agency's order is not at odds with the plain language of the rule, nor does it effectively "amend," rather than reasonably construe, the rule. Second, we reject Devon's claim that DOI's order conflicts with a prior interpretation of the marketable condition rule. Devon argues that its position finds support in guidance documents distributed by agency personnel after DOI's promulgation of the 1988 regulations. However, as Devon concedes, these contested guidance documents were distributed by agency individuals who had no authority either to amend the marketable condition rule or to issue authoritative guidelines on behalf of the agency.

I. BACKGROUND

A. *Statutory and Regulatory Framework*

Through its Minerals Management Service ("MMS"), Interior issues and administers leases authorizing the removal of natural gas from federal land. The Mineral Leasing Act, 30 U.S.C. §§ 181 *et seq.* (2000), "was intended to promote wise development of these natural resources and to obtain for the public a reasonable financial return on assets that 'belong' to the public." *California Co. v. Udall*, 296 F.2d 384, 388 (D.C. Cir. 1961). Under the Mineral Leasing Act, the producer-lessees must pay the government-lessor "a royalty at a rate of not less than 12.5 percent in amount or value of the production removed or sold from the lease." 30 U.S.C. § 226(b)(1)(A). In the Federal Oil and Gas Royalty Management Act, the Secretary of the Interior was instructed by Congress to create a comprehensive inspection, collection, accounting, and auditing system to ensure that the government receives the royalties owed. 30 U.S.C. § 1711(a) (1982).

The Mineral Leasing Act gives DOI the authority "to prescribe necessary and proper rules and regulations and to do any and all things necessary to carry out and accomplish the

purposes of" the Act. 30 U.S.C. § 189. Pursuant to this directive, DOI has issued a number of regulations governing the royalty valuation process. In 1988, DOI conducted a major rulemaking that modified the then-existing gas royalty valuation regulations. *See* Revision of Gas Royalty Valuation Regulations and Related Topics, 53 Fed. Reg. 1230, 1272 (Jan. 15, 1988); 30 C.F.R. § 206.152 (1988). The 1988 regulations establish the framework for calculating the royalty value of the coalbed methane gas production at issue here. Under this regulatory framework, royalties are calculated on the basis of the total value a lessee receives for its production. The regulations specify that the "value of production" should be no less "than the gross proceeds accruing to the lessee for lease production," minus certain allowable deductions. 30 C.F.R. § 206.152(h); *see also Amoco Prod. Co. v. Watson*, 410 F.3d 722, 725 (D.C. Cir. 2005), *aff'd sub nom., BP Am. Prod. Co. v. Burton*, 549 U.S. 84 (2006).

When calculating "gross proceeds," DOI regulations have long interpreted the Mineral Leasing Act to require lessees to put the gas into marketable condition at no cost to the United States – the so-called "marketable condition rule." The 1988 regulations confirmed this requirement. *See* 30 C.F.R. § 206.152(i) (governing unprocessed gas); 30 C.F.R. § 206.153(i) (governing processed gas); *see also California Co.*, 296 F.2d at 387-88 (affirming marketable condition requirement). Marketable condition is defined in the DOI regulations as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151. If a lessee sells "unmarketable" gas at a lower price, the gross proceeds are "increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. 30 C.F.R. § 206.152(i); *Amoco*, 410 F.3d at 725-26.

The 1988 regulations also provide that the lessee may deduct its actual costs of transporting the gas from the wellhead to the point of sale when gas produced from the lease is sold at a market remote from the lease. 30 C.F.R. § 206.157(a)-(b). This "transportation allowance" includes "only those costs which are directly related to the transportation of lease production." 53 Fed. Reg. at 1261. A transportation allowance is defined as "an allowance for the reasonable, actual costs of moving [gas] to a point of sale or delivery off the lease . . . or away from a processing plant." 30 C.F.R. § 206.151.

B. *Facts and Proceedings Below*

Devon leases land from the United States in Wyoming's Powder River Basin, which contains the natural gas known as coalbed methane. These leases cover three fields – Kitty, Spotted Horse, and Rough Draw – each of which contains a large number of individual gas-producing wells. The gas produced from the wells is gathered at central delivery points ("CDPs") that have been approved by the Bureau of Land Management as the points of measure for the royalty due on the gas. After the gas leaves a CDP, it goes through a complex series of compression and dehydration processes as it travels "downstream" to the Buckshot processing plant in preparation for eventual sale. *See* Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, *reprinted in* Joint Appendix ("J.A.") 57 ("Valuation Determination"); *see also* Chart, J.A. 460.

The production process varies slightly in the three fields, but the differences are not material. Essentially, each CDP is connected to a small diameter pipeline. Gas travels from the CDP through the pipeline to one of several "screw compressors," which compress the gas to raise its pressure. The gas then travels through the pipeline to a "field booster," a reciprocating compressor that further raises the pressure of the gas. The gas then enters a dehydrator, which removes water.

Valuation Determination, J.A. 61. At this point, the gas enters a 24-inch high-pressure gas pipeline, which begins at what is known as the Landeck Station and runs 126 miles to the Buckshot Gas Plant. Approximately 30 miles from the Landeck Station, the gas enters a large compressor called the "MTG Booster," which compresses the gas to raise the pressure from 450-500 pounds per square inch ("psi") to approximately 1,200 psi. The gas travels the remaining 96 miles to the Buckshot Gas Plant, losing approximately one-third of its pressure on the way. *Id.* at 66.

When the gas arrives at the Buckshot Gas Plant, excess carbon dioxide is removed, the gas is dehydrated, and the gas is compressed from approximately 800 psi to 1,100 psi. At that pressure, Devon delivers the treated gas into one of two lateral pipelines. The gas is transported to various purchasers through these pipelines. *Id.*

On November 2, 1995, DOI and MMS personnel serving on a group called the Royalty Policy Board met to discuss how the royalty calculation regulations should be applied to coalbed methane production. *See* Royalty Policy Board Meeting Minutes, Nov. 2, 1995, *reprinted in* J.A. 102. Subsequently, on December 7, 1995, and December 8, 1995, the then-Deputy Director of MMS issued two documents captioned "Coalbed Methane Valuation and Reporting Guidelines" and "Compression Guidance," respectively. *See* Coalbed Methane Valuation and Reporting Guidelines, Dec. 7, 1995, *reprinted in* J.A. 157; Compression Guidance, Dec. 8, 1995, *reprinted in* J.A. 160 [hereinafter, along with the "Dear Operator" letter, *infra*, "guidance documents"]. These documents were memoranda from the Deputy Director to the Associate Director for Royalty Management and the Associate Director for Policy and Management Improvement. J.A. 83. Although they were not promulgated pursuant to the notice-and-comment procedures of the Administrative Procedure Act ("APA"), 5 U.S.C. § 553

(2000), the guidance documents nonetheless suggested that certain costs of compression and dehydration after the gas leaves the CDP were deductible as transportation costs.

Subsequently, on April 22, 1996, MMS's Associate Director for Royalty Management distributed a "Dear Operator" letter detailing how to calculate royalties on coalbed methane production. The letter stated:

> If you sell your coalbed methane at the tailgate of a carbon dioxide removal or other treating facility . . . [y]ou can include costs of dehydration occurring after metering at the royalty measurement point in your transportation allowance but you cannot deduct costs of dehydration occurring at the wellhead. You can include costs for compression occurring downstream of the royalty measurement point, to the extent the compression is necessary for transportation. This includes compression at the CDP and in the transportation system to the [carbon dioxide] removal facility.

MMS Dear Operator Letter, Apr. 22, 1996, *reprinted in* J.A. 162, 164 [hereinafter, along with the "Coalbed Methane Valuation and Reporting Guidelines" and the "Compression Guidance," *supra*, "guidance documents"].

From 1995 to 2002, Devon deducted the following costs as transportation allowances: the cost of compressing the gas at the screw compressors, the field boosters, the MTG Booster, and the Buckshot Gas Plant, as well as the cost of dehydrating the gas. Devon apparently assumed that these expenses were deductible transportation costs under the guidance documents. On January 11, 2002, however, Devon sought guidance from MMS to confirm that it was properly deducting (as part of its transportation allowance) dehydration and compression costs incurred after the gas leaves the CDPs. Request for Valuation Determination, Jan. 11, 2003, *reprinted in* J.A. 166. On October 9, 2003, the Acting Assistant Secretary issued a decision

rejecting Devon's reliance on the guidance documents. *See* Valuation Determination, J.A. 57.

In its Valuation Determination, the agency found that statements in the guidance documents were either ambiguous, J.A. 84-85, or reflected an incorrect application of the marketable condition rule, J.A. 84, or were simply "inconsistent" with the rule, J.A. 85. The DOI Valuation Determination held that Devon's deductions of the costs of dehydration and of compression performed at the screw compressors, the reciprocating compressors, and the Buckshot Plant were inconsistent with the marketable condition rule, because the compression and dehydration functions were necessary to put the production into marketable condition.

> Devon could not meet the requirements of any of its sales contracts without compressing the gas to the pressure necessary to get it into those [pipe]lines . . . . That is the pressure that would enable the gas to be "accepted by a purchaser under a sales contract typical for the field or area," in the words of the definition [of the marketable condition rule] at 30 C.F.R. § 206.151. In other words, to meet the requirements of the "sales contract[s] typical for the field or area," Devon had to compress the gas to pipeline pressure.

Id. at 88.

> Both before and after the 1988 regulations, the lessee's obligation is to dehydrate gas to the water content required for delivery to the pipeline (as necessary for sale under contracts that are typical for the disposition of gas produced from the field or area). . . .
>
> Devon has not shown that the dehydration performed after the reciprocating compressors and at the Buckshot Plant is for anything other than what is required to put the

> production into marketable condition and what is necessary for it to meet pipeline and purchaser requirements.

Id. at 91.

Devon's request for reconsideration of the DOI Valuation Determination was denied in March 2004. Final Order to Perform Restructured Accounting and Pay Additional Royalties ("Final Order"), Mar. 19, 2004, *reprinted in* J.A. 46. The DOI Final Order largely reaffirmed the reasoning and conclusions reached in the DOI Valuation Determination. Devon was instructed to "perform a restructured accounting and pay additional royalties on the coalbed methane produced from the Federal leases" that were the subject of the DOI Valuation Determination. J.A. 55. Devon was also instructed that, in the future, it was to "report and pay royalties under the regulations and guidelines discussed" in the DOI Final Order. *Id.*

Devon filed suit in the District Court seeking to overturn the Final Order. The District Court denied Devon's motion for summary judgment and granted Interior's cross-motion for summary judgment. *Devon Energy Corp. v. Norton*, No 04-Civ-0821, 2007 WL 2422005 (D.D.C. Aug. 23, 2007). This appeal followed.

II. Analysis

A. *Standard of Review*

> "In a case like the instant one, in which the District Court reviewed an agency action under the APA [5 U.S.C. § 706], we review the administrative action directly, according no particular deference to the judgment of the District Court." *Holland v. Nat'l Mining Ass'n*, 309 F.3d 808, 814 (D.C. Cir. 2002); *see also Troy Corp. v. Browner*, 120 F.3d 277, 281 (D.C. Cir. 1997); *Gas Appliance Mfrs. Ass'n, Inc. v. Dep't of Energy*, 998 F.2d 1041, 1045 (D.C. Cir. 1993). We will uphold the contested agency action unless we find it to be "arbitrary, capricious, an abuse of

discretion, or otherwise not in accordance with law." 5 U.S.C. § 706(2)(A).

An agency's interpretation of its own regulation is entitled to "substantial deference," unless "plainly erroneous or inconsistent with the regulation." *Thomas Jefferson Univ. v. Shalala*, 512 U.S. 504, 512 (1994) (internal quotation marks omitted). However, an agency may not "evade [the] notice and comment requirements [of § 553 of the APA, 5 U.S.C. § 553(b)(A),] by amending a rule under the guise of reinterpreting it." *Envtl. Integrity Project v. EPA*, 425 F.3d 992, 995 (D.C. Cir. 2006) (quoting *Molycorp, Inc. v. EPA*, 197 F.3d 543, 546 (D.C. Cir. 1999)); *see also Am. Hosp. Ass'n v. Bowen*, 834 F.2d 1037, 1044-48, 1052-57 (D.C. Cir. 1987). In determining whether an agency action effectively "amends" a rule without adhering to the requirements of the APA, we must consider, *inter alia*, whether the agency officials involved in the disputed actions had the authority to issue binding regulations or otherwise act with the force of law on behalf of the agency. *See generally* HARRY T. EDWARDS & LINDA A. ELLIOTT, FEDERAL STANDARDS OF REVIEW – REVIEW OF DISTRICT COURT DECISIONS AND AGENCY ACTIONS 130-35 (2007).

B. *Plain Language*

Under the 1988 DOI regulations, "marketable condition" is defined to mean "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151. The marketable condition rule requires lessees to put gas into marketable condition at no cost to the United States. At issue here is DOI's interpretation of the rule to include the costs of compression and dehydration incurred after the gas leaves the CDPs to allow it to move through the pipelines that serve the market in which the gas is typically sold. Devon argues that this interpretation is inconsistent with the plain language of the regulations, because

it improperly focuses the inquiry on the market where the gas is actually sold, as opposed to the requirements of a sales contract typical for the field or area.

In its Valuation Determination and Final Order, DOI held that costs associated with compression and dehydration are not deductible if their primary function is to prepare the gas to move through the pipelines to the point where gas is purchased. However, the parties disagree as to what "sales contract typical for the field or area" requires. DOI found that "typical" sales contracts require that gas be delivered to the purchaser at the terminus of a specified pipeline. Under this view, a producer must provide the compression and dehydration necessary to allow the gas to be delivered through the pipeline. Therefore, the agency reasonably found that Devon "could not meet the requirements of any of its sales contracts without compressing the gas to the pressure necessary to get it into" the pipelines, J.A. 88, and that Devon had "not shown that the dehydration performed . . . [was] for anything other than what is required to put the production into marketable condition . . . to meet pipeline and purchaser requirements." J.A. 91.

It is true that the DOI marketable condition rule is ambiguous, and Devon's preferred interpretation of the rule is not unreasonable. In other words, we assume that the costs of dehydration and compression can reasonably be interpreted to fall within the compass of "transportation costs." However, we are obliged to afford "substantial deference to an agency's interpretation of its own regulations." *Thomas Jefferson Univ.*, 512 U.S. at 512 (citations omitted). On this record, we find that DOI's contested construction of the marketable condition rule is reasonable. Indeed, DOI's interpretation of the marketable condition rule is consistent with an interpretation that this court approved in *Amoco*, 410 F.3d 722.

In *Amoco*, we addressed DOI's interpretation of the marketable condition rule as it related to the cost of transporting

excess carbon dioxide to the treatment plant. The court held that the marketable condition rule did not require DOI to "understand typical sales contracts – and thus marketable condition – as relating to transactions at the leasehold or immediately nearby." *Id.* at 729. "The regulation stipulating that producers are to place gas in marketable condition at no cost to the government does not contain a geographic limit." *Id.* Therefore, DOI's interpretation of the marketable condition rule to require lessees to compress and dehydrate gas to meet the requirements of the pipelines that serve its typical purchasers is not "plainly erroneous or inconsistent with the regulation." *Thomas Jefferson Univ.*, 512 U.S. at 512. And as the court noted in *Amoco*, the deference that we owe to an agency's interpretation of its own regulations "is particularly appropriate in the context of a complex and highly technical regulatory program, in which the identification and classification of relevant criteria necessarily require significant expertise and entail the exercise of judgment grounded in policy concerns." 410 F.3d at 729 (citations and quotations omitted).

C. *The Requirements of a Typical Sales Contract*

Devon argues that there is no record support for the agency's conclusion that the typical sales contract for the field or area required Devon to compress its gas to 1,100 psi and dehydrate it in order to put the gas in marketable condition. However, although DOI provided Devon an opportunity to supplement the record after the first valuation determination, Devon merely asserted that it "believes that its working interest partner, Redstone Resources, Inc., sells gas to unrelated third parties in the field at pressures less than 1200 psi [sic] under contracts typical for the field or area." Request for Reconsideration and/or Clarification, *reprinted in* J.A. 194, 196. This cursory assertion is not sufficient to render DOI's interpretation unreasonable.

D. *Prior Inconsistent Interpretation*

Finally, Devon argues that the agency's interpretation of the marketable condition rule (embodied in the DOI Valuation Determination and Final Order) must be vacated because it was issued without notice-and-comment rulemaking required by § 553 of the APA. At bottom, Devon's central claim is that it acted in reliance on the guidance documents and this "reliance interest is protected by the APA." Appellant's Br. at 16. Devon's argument runs as follows:

> The marketable condition rule does not prohibit the deduction of transportation costs, and it does not attempt to differentiate between deductible transportation costs and nondeductible marketable condition costs. Because the regulations do not expressly address the issue, the Royalty Policy Board was called upon to interpret the regulations. [*Id.*]
>
> [The Board's] decision gave rise to [the guidance documents] which were consistently followed by Interior from 1995 until 2003. [*Id.*]
>
> Devon followed Interior's publicly-announced guidelines and instructions when it deducted its post-CDP dehydration and compression costs. [*Id.*]
>
> Interior's decision in this case wrongly assumes that Interior was not bound by its 1995 guidelines and instructions because they were not embodied in a formal regulation. This Court has long recognized that an agency interpretation can be authoritatively adopted even if it was not embodied in a rule that was adopted through a notice and comment rulemaking. [*Id.* at 17.]
>
> An agency's consistent advice – and here it was instruction – to the regulated community can evidence the agency's authoritative adoption of a regulatory interpretation. Such

> an interpretation can be changed only through a notice and comment rulemaking. [*Id.*]

DOI's description of the situation is quite different. According to the agency, there was no official or binding Royalty Policy Board action taken to address the issues now before the court. Rather, DOI contends that

> [n]otice and comment rulemaking was . . . not required for Interior to change its interpretation of its regulation from how it had been applied as a result of ambiguous guidance documents. This Court has held that the very same guidance documents were not binding on the agency. [*See Amoco*, 410 F.3d at 732.] If they were not binding, then they are not evidence of a definitive agency interpretation and Interior can change its interpretation without going through notice and comment rulemaking. . . . Absent a definitive interpretation, the APA does not require notice and comment rulemaking to effect a change in that interpretation.

Appellee's Br. at 15-16. For the reasons stated below, we agree with DOI.

First, it is telling that the agency's disputed Valuation Determination and Final Order came only after Devon sought confirmation from the agency that it was properly deducting the dehydration and compression costs (as part of its transportation allowance) incurred after the gas leaves the CDPs. This request for confirmation was made in 2002, long after the issuance of the guidance documents upon which Devon now relies. It is perplexing, to say the least, that Devon was seemingly confused over the propriety of its royalty accounting if, in its view, the matters at issue had been authoritatively resolved over five years earlier. In other words, there is much force to DOI's argument that, in fact, the guidance documents were far from conclusive in what they said.

Second, implicit in Devon's prior-inconsistent-interpretation argument is a claim that the judgments reached in DOI's Valuation Determination and Final Order do not reflect a supportable interpretation of the marketable condition rule. As we have already explained in part II.B, *supra*, we find no merit in this claim. Although the marketable condition rule is ambiguous and Devon's preferred construction of the rule is not unreasonable, we are obliged to defer to the agency's reasonable construction of the rule. *Thomas Jefferson Univ.*, 512 U.S. at 512 (holding that an agency's interpretation of its own regulation is entitled to "substantial deference," unless "plainly erroneous or inconsistent with the regulation").

Third, and most important, Devon is mistaken in its argument that the guidance documents constituted authoritative and binding interpretations of the marketable condition rule. In rejecting Devon's argument, we start with the principle that agency actions do not have the force of law unless they "mark the consummation of the agency's decisionmaking process" and either determine "rights or obligations" or result in discernible "legal consequences" for regulated parties. *Bennett v. Spear*, 520 U.S. 154, 177-78 (1997). The "Dear Operator" letter certainly does not satisfy this standard. Indeed, this court has previously considered a different aspect of the very same "Dear Operator" letter that is at issue in this case. *See Amoco*, 410 F.3d at 732.

In *Amoco*, coalbed methane producers challenged an Assistant Secretary's decision that cited the April 22, 1996 letter, arguing that it constituted a new rule that the agency could promulgate only through notice-and-comment rulemaking. Citing *Independent Petroleum Ass'n of America v. Babbitt*, 92 F.3d 1248, 1256-57 (D.C. Cir. 1996), the court rejected Amoco's argument because the letter was not binding on the agency:

> As in *Babbitt*, the Payor Letter here is not an agency statement with future effect because nothing under DOI regulations vests the Letter's author – in *Babbitt* and this case MMS's Associate Director for Royalty Management – with the authority to announce rules binding on DOI. *Id.* at 1256. "The letter is not an agency rule at all, legislative or otherwise, because it does not purport to, nor is it capable of, binding the agency." *Id.* at 1257.
>
> . . . .
>
> The sort of "workaday advice letter[s] that agencies prepare countless times per year in dealing with the regulated community," *Indep. Equip. Dealers Ass'n v. EPA*, 372 F.3d 420, 427 (D.C. Cir. 2004) (internal quotation marks omitted), do not retroactively become agency rules whenever they are referenced in an agency decision.

Amoco, 410 F.3d at 732.

In response to the *Amoco* holding, Devon says that it "does not contend that the 1996 Dear Operator letter in and of itself was a binding rule. Rather, Devon contends that the regulatory interpretation it relied on was authoritatively adopted by the agency through the cumulative effect of a number of agency actions, including but not limited to, the issuance of the 1996 Dear Operator letter." Devon Reply Br. at 14. There are two problems with this argument. First, it assumes that the two internal memoranda written by the Deputy Director of the Minerals Management Service in 1995 to the Associate Director for Royalty Management and the Associate Director for Policy and Management Improvement were final and binding agency interpretations of the marketable condition rule. Second, it assumes that the guidance documents have the force of law because Devon followed the advice contained in the documents. There is no merit to these contentions.

Devon argues that these 1995 documents were conclusive because they reflected the actions of the Royalty Policy Board, as if to suggest that the Board had authority to adopt regulations or guidelines that bind the agency. But when questioned about this at oral argument, Devon's counsel readily conceded that the Royalty Policy Board had no authority to issue authoritative guidelines, and that the guideline documents did not have the force of law. This concession is unsurprising, because there is *nothing* in the record here to indicate that the guidance documents purported to have the force of law.

At the very least, a definitive and binding statement on behalf of the agency must come from a source with the authority to bind the agency. *See Ctr. for Auto Safety v. Nat'l Highway Traffic Safety Admin.*, 452 F.3d 798, 810 (D.C. Cir. 2006) (holding that Associate Administrator for Safety Assurance had no authority to issue guidelines with binding effect on agency); *Ass'n of Am. R.Rs. v. DOT*, 198 F.3d 944, 948 (D.C. Cir. 1999) (holding a letter and two emails from lower level officials did not amount to an authoritative agency interpretation); *Paralyzed Veterans of Am. v. D.C. Arena L.P.*, 117 F.3d 579, 587 (D.C. Cir. 1997) (stating that a speech of a mid-level official of an agency "is not the sort of 'fair and considered judgment' that can be thought of as an authoritative departmental position") (citing *Auer v. Robbins*, 519 U.S. 452, 462 (1997)); *Amoco*, 410 F.3d at 732 (noting "Dear Operator" letter not binding on agency because not authored by official with authority to announce binding rules). The guidance documents at issue here do not satisfy this standard.

Fourth, resting on its "reliance" theory, Devon suggests that the agency is bound by the guidance documents because, for a number of years, regulated parties followed the advice contained in the documents. This argument fails. In *Center for Auto Safety*, 452 F.3d 798, a case very much on point, the court held that policy guidelines issued by the Associate Administrator of

the National Highway Traffic Safety Administration did not amount to a binding rule. The contested guidelines, which related to automakers' voluntary regional recalls, were found not binding because the Associate Administrator had no authority to issue binding regulations or make a final determination on the issue. Importantly, the court also rejected the petitioner's argument that, merely because the agency and automakers had followed the guidelines for seven years, the guidelines had binding "legal consequences." In addressing this point, the court said:

> The flaw in appellants' argument is that the "consequences" to which they allude are practical, not legal. It may be that, to the extent that they actually prescribe anything, the agency's guidelines have been voluntarily followed by automakers and have become a de facto industry standard for how to conduct regional recalls. But this does not demonstrate that the guidelines have had *legal consequences*. The Supreme Court's decision in *Bennett* makes it quite clear that agency action is only final if it determines "rights or obligations" or occasions "*legal* consequences." 520 U.S. at 178. (citation and internal quotation marks omitted). Circuit case law cannot obviate the holding of *Bennett*.

Ctr. for Auto Safety, 452 F.3d at 811. *See also Nat'l Ass'n of Home Builders v. Norton*, 415 F.3d 8, 15 (D.C. Cir. 2005) ("[I]f the practical effect of the agency action is not a certain change in the legal obligations of a party, the action is non-final for the purpose of judicial review.").

Devon argues that our decisions in *Alaska Professional Hunters Ass'n v. FAA*, 177 F.3d 1030 (D.C. Cir. 1999), and *Paralyzed Veterans of America*, 117 F.3d 579, should control the disposition of this case. We disagree. In *Alaska Professional*, the court found that thirty years of uniform advice by the Alaskan regional office of the FAA "became an

authoritative departmental interpretation" binding on the agency. The case is plainly distinguishable, however, because the disputed agency advice in that case had been upheld in a formal adjudication by the Civil Aeronautics Board, FAA's predecessor agency. *See Alaska Prof'l*, 177 F.3d at 1034 (discussing *Administrator v. Marshall*, 39 C.A.B. 948 (1963)). Indeed, the decision in *Alaska Professional* acknowledges that an interpretation or advice by an official without authority to bind the agency alone would not amount to an authoritative interpretation. *Alaska Prof'l*, 177 F.3d at 1035; *see also Hudson v. FAA*, 192 F.3d 1030, 1036 (D.C. Cir. 1999) (distinguishing *Alaska Professional* as concerning a binding interpretation on the basis of the formal adjudication upon which the longstanding practice was based); *Ass'n of Am. R.Rs.*, 198 F.3d at 949 (same). In this case, by contrast, the guidance documents have never been upheld in an agency adjudication, nor have they ever been endorsed in any other agency action having the force of law.

Paralyzed Veterans also lends no support to Devon's position. In that case, we held that Advisory Board guidelines that were not clearly adopted by the Department of Justice and a speech by a mid-level official did not amount to a binding interpretation of its regulation implementing the Americans with Disabilities Act. 117 F.3d at 588. The court noted that if the Department itself had adopted the Board's interpretation of the regulation the outcome might have been different. *Id.* The case surely does not stand for the proposition that guidance documents written by persons without authority to bind an agency and released with no indication that the documents purported to have the force of law may be taken as binding interpretations of an agency regulation.

In sum, we find no merit in Devon's claim that it acted in reliance on the 1995 and 1996 guidance documents and that this "reliance interest is protected by the APA." As noted above, the guidance documents were far from conclusive in what they said.

In any event, on the record here, it is plain that the contested guidance documents did not come from sources who had the authority to bind the agency. Therefore, it does not matter whether the appellant, or others, followed the advice that was offered in these documents. These documents did not amount to a binding interpretation of the marketable condition rule, so the Agency was free to adopt the interpretation at issue in this case without providing an opportunity for notice and comment.

III. CONCLUSION

For the reasons indicated above, we deny Devon's challenge to DOI's Final Order and affirm the District Court's judgment in favor of the agency.

Level 5 Rows 17/ 17

Sales Contracts

(B)(4)

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Level 5 Rows 9/ 9

Sales Contracts

(B)(4)

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(B)(7)(e)

Level 5 Rows 5/ 5

Sales Contracts

(B)(4)

(B)(4)

(B)(5)

(B)(7)(e)

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Enserco Energy Inc.	ConocoPhillips Company	
350 Indiana St.	Chase Manhattan Bank, N.A.	
Suite 200	Acc [redacted] (B)(4) (B)(4) (B)(5)	
Golden, CO 80401	ABA [redacted]	
	New York, NY 10005-1401 (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (303) 568-3232	Telephone: (281) 293-5838	
Fax: (303) 568-3250	Fax: (281) 293-3940	

Statement Number: R10007402
Billing Period: Oct-2000
Statement Date: **November 8, 2000**
Due Date: November 25, 2000
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from receipt of invoice

Sell

Delivery Period: Oct-2000 **Contract:** 15333 - GISB w/special provision **Deal:** 15333-26

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
1	01-Oct	01-Oct	EPNG	BLANCO POOL-BLANCO POOL	Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
2	19-Oct	19-Oct			Commodity	12,129	MMBtu		US$ MMBtu		
3	22-Oct	22-Oct			Commodity	9,972	MMBtu		US$ MMBtu		
4	01-Oct	01-Oct	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Commodity	10,000	MMBtu		US$ MMBtu		
5	03-Oct	03-Oct			Commodity	5,000	MMBtu		US$ MMBtu		
6	04-Oct	04-Oct			Commodity	35,000	MMBtu		US$ MMBtu (B)(4)		
7	06-Oct	06-Oct			Commodity	11,000	MMBtu (B)(4)		US$ MMBtu		
8	09-Oct	09-Oct			Commodity	10,000	MMBtu		US$ MMBtu		
9	11-Oct	11-Oct			Commodity	0	MMBtu	(B)(4) (B)(5)	US$ MMBtu		
10	28-Oct	30-Oct			Commodity (B)(4) (B)(5)	15,000	MMBtu	(B)(7)(e)	US$ MMBtu		
11	04-Oct	04-Oct		MILAGRO-MILAGRO-EPNG (B)(4)	Commodity (B)(7)(e)	15,000	MMBtu		US$ MMBtu		

Delivery Period: Oct-2000 **Contract:** 15333 - [redacted] **Deal:** [redacted]

12	10-Oct	10-Oct	WFS	MANZAN-MANZAN	Commodity	15,000	MMBtu		US$ MMBtu		
13	11-Oct	11-Oct			Commodity	22,000	MMBtu		US$ MMBtu		
14	13-Oct	13-Oct			Commodity	15,000	MMBtu		US$ MMBtu		
15	17-Oct	17-Oct			Commodity	7,500	MMBtu		US$ MMBtu		
16	20-Oct	20-Oct			Commodity	15,000	MMBtu		US$ MMBtu		
17	21-Oct	23-Oct			Commodity	45,000	MMBtu		US$ MMBtu		

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ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Enserco Energy Inc.	ConocoPhillips Company	**Statement Number:** R10007402
350 Indiana St.	Chase Manhattan Bank, N.A.	**Billing Period:** Oct-2000
Suite 200	Acct: [redacted] (B)(4)	**Statement Date:** **November 8, 2000**
Golden, CO 80401	ABA: [redacted] (B)(4) (B)(5) (B)(7)(e)	
	New York, NY 10005-1401	**Due Date:** November 25, 2000
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (303) 568-3232	**Telephone:** (281) 293-5838	
Fax: (303) 568-3250	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period: Oct-2000				**Contract:** [redacted] (B)(4)				**Deal:** [redacted] (B)(4) (B)(5) (B)(7)(e)	(B)(4)		
18	26-Oct	26-Oct	WFS	L121-IGNACIO POO-L121-IGNACIO POOL	Commodity	2,000	MMBtu		US$ MMBtu	[redacted] (B)(4)	
Delivery Period: Oct-2000				**Contract:** [redacted] (B)(4)				**Deal:** 15[redacted]	(B)(4)		
19	28-Oct	30-Oct	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Commodity	15,000	MMBtu		US$ MMBtu		
									Sale Sub-Tota	[redacted] (B)(4)	
				Statement Total:					US$		

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(B)(5)
(B)(7)(e)

(B)(4)

(B)(4)

(B)(4)

...MORE DATA FOLLOWS

06/028

Level 5 Rows 12/ 12

Sales Contracts

(B)(4)

(B)(4)

(B)(5)

(B)(7)(e)

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Enserco Energy Inc.	ConocoPhillips Company	**Statement Number:** R070214145
350 Indiana Street, Suite 400	JP Morgan Chase & Company	**Billing Period:** Jul-2002
Golden, CO 80401	ABA # (B)(4) [redacted] (B)(4)	**Statement Date:** **August 8, 2002**
	Acct # (B)(5) [redacted] (B)(7)(e)	
	New York, NY 10005-1401	**Due Date:** August 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (303) 568-3253	**Telephone:** (281) 293-5838	
Fax: (303) 568-3250	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jul-2002			**Contract:** 15333 - GISB w/special provision				**Deal:**			
1	10-Jul	10-Jul	EPNG	BONDAD POOL-BONDAD POOL	Commodity	5,000	MMBtu (B)(4)	[redacted]	US$ MMBtu	(B)(4) [redacted]	
2	15-Jul	15-Jul	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Commodity	6,056	MMBtu		US$ MMBtu		
3	20-Jul	20-Jul			Commodity	663	MMBtu		US$ MMBtu		
4	14-Jul	15-Jul		L121-IGNACIO POO-L121-IGNACIO POOL	Commodity	9,646	MMBtu (B)(4) (B)(5) (B)(7)(e)		US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
5	22-Jul	22-Jul			Commodity	8,404	MMBtu		US$ MMBtu		
6	24-Jul	24-Jul			Commodity	4,628	MMBtu		US$ MMBtu		
Delivery Period:	Jul-2002			**Contract:** 15333 - GISB w/special provision				**Deal:**			
7	31-Jul	31-Jul	WFS	A27-IGNACIO POOL-A27-IGNACIO POOL	Commodity	6,570	MMBtu (B)(4)		US$ MMBtu	(B)(4)	
8	31-Jul	31-Jul		L121-IGNACIO POO-L121-IGNACIO POOL	Commodity	0	MMBtu		US$ MMBtu		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Enserco Energy Inc.	ConocoPhillips Company	
350 Indiana Street, Suite 400	JP Morgan Chase & Company	
Golden, CO 80401	ABA # [redacted] (B)(4)	
	Acct # [redacted] (B)(4)	
	New York, NY 10005-1401 (B)(5) (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (303) 568-3253	Telephone: (281) 293-5838	
Fax: (303) 568-3250	Fax: (281) 293-3940	

Statement Number: R070214145
Billing Period: Jul-2002
Statement Date: **August 8, 2002**
Due Date: August 25, 2002
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from receipt of invoice

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jul-2002			**Contract:** 15333 - GISB w/special provision				**Deal:** [redacted] (B)(4)			
9	28-Jul	29-Jul	WFS	L121-IGNACIO POO-L121-IGNACIO POOL Commodity	8,676	MMBtu	[redacted]	US$ MMBtu	$ [redacted] (B)(4)	(B)(4) (B)(5) (B)(7)(e)
									Sale Sub-Tota [redacted]	
				Statement Total:				US$		

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Level 5 Rows 11/ 11

Sales Contracts

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(B)(7)(e)

Level 5 Rows 13/ 13

Sales Contracts

(B)(4)

(B)(4)
(B)(5)
(B)(7)(e)

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R070214200
7600 Wisconsin Ave	JP Morgan Chase & Company	**Billing Period:** Jul-2002
Bathesda, MD 20814	ABA # (B)(4)	**Statement Date:** **August 8, 2002**
	Acct # (B)(4)	
	(B)(5) New York, NY 10005-1401 (B)(7)(e)	**Due Date:** August 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal:**			
1	01-Jul	31-Jul	EPNG	BLANCO POOL-BLANCO POOL	Commodity	382,351	MMBtu		US$ MMBtu		
2	01-Jul	31-Jul	TW	0058648-San Juan Pool	Commodity	307,308	MMBtu		US$ MMBtu		
3	01-Jul	31-Jul	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu		US$ MMBtu		
4	01-Jul	31-Jul		MANZAN-MANZAN	Commodity	0	MMBtu (B)(4)		US$ MMBtu (B)(4)		
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal:**			
5	01-Jul	31-Jul	EPNG	BLANCO POOL-BLANCO POOL	Commodity	172,761	MMBtu		US$ MMBtu		(B)(4)
6	01-Jul	31-Jul	TW	0058648-San Juan Pool	Commodity	337,970	MMBtu (B)(4)		US$ MMBtu		(B)(5)
7	01-Jul	31-Jul	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu (B)(5)		US$ MMBtu		(B)(7)(e)
8	01-Jul	31-Jul		MANZAN-MANZAN	Commodity	0	MMBtu (B)(7)(e)		US$ MMBtu		
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal:**			
9	01-Jul	31-Jul	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	605,234	MMBtu		US$ MMBtu		
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal:**			
10	01-Jul	31-Jul	Colgulf	P3039310-ON POOL-CONOCO	Commodity	232,500	MMBtu (B)(4)		US$ MMBtu (B)(4)		
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal:**			
11	01-Jul	31-Jul	TGT	3700-ZONE SL POOLING DEL	Commodity	387,500	MMBtu		US$ MMBtu		
Delivery Period:	Jul-2002			**Contract:** 14622 - Buy-Sell				**Deal**			
12	01-Jul	31-Jul	Trunkline	TE028-CONOCO TRN EAST LOUISIANA TABS	Commodity	155,000	MMBtu		US$ MMBtu		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	Statement Number: R070214200
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	Billing Period: Jul-2002
7600 Wisconsin Ave	JP Morgan Chase & Company	Statement Date: **August 8, 2002**
Bathesda, MD 20814	ABA # [redacted] (B)(4)	
	(B)(4) [redacted]	
	(B)(5) York, NY 10005-1401	Due Date: August 25, 2002
	(B)(7)(e)	Payment Method: Wire
Contact:	Contact: Harriet E Patrick	Terms: Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	Telephone: (281) 293-5838	
Fax: (301) 280-6604	Fax: (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jul-2002			**Contract:**	14622 - Buy-Sell	(B)(4) (B)(5) (B)(7)(e)		**Deal:** [redacted]			
13	01-Jul	31-Jul	PG&E/NCal	EP0110R-Topock	Commodity***	527,311	MMBtu	(B)(4)	US$ MMBtu	(B)(4)	
Delivery Period:	Jul-2002			**Contract:**	14622 - Buy-Sell			**Deal:** [redacted]		(B)(5)(B)(4) (B)(7)(e)	(B)(4)
14	01-Jul	31-Jul	PG&E/NCal	EP0110R-Topock	Commodity***	445,576	MMBtu		US$ MMBtu		
Delivery Period:	Jul-2002			**Contract:**	14622 - Buy-Sell			**Deal:** (B)(4) [redacted]			
15	04-Jul	08-Jul	Peoples	9999-Peoples Pool	Commodity	17,500	MMBtu		US$ MMBtu		
										Sale Sub- (B)(4)	(B)(4)
					Statement Total:				US$		

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No: (B)(4) (B)(5)
Bill Pty (Duns): 008427692

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205688
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # (B)(4)
Routing # (B)(5)
Dallas, TX. 75284-0607

Remittance Address:
(B)(4) Transwestern Pipeline Co.
(B)(5) P O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

(B)(7)(e)

Invoice Total Amount: (B)(4) (B)(5)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Reservation					56498/89310 - BLOOMFIELD COMPRESS			56709/68151 - THOREAU/SAN JUAN AR		01 - 31			(B)(4) (B)(5)	(B)(4) (B)(5)		

ZONE SUBTOTAL (B)(7)(e)

INVOICE AMOUNT: (B)(4) (B)(5)

8390-TW-NM-TWSJ POOL -20835 -100-03 (B)(4) (B)(5) $

(B)(4)
(B)(5)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)

(B)(4)
(B)(5)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

09323 wire

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No: (B)(4) (B)(5)
Bill Pty (Duns): (B)(7)(e)

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205529
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Acct No: (B)(4) (B)(5)
Routing #: (B)(7)(e)
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
(B)(4) P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Comm. ...y					58648/105017 - SAN JUAN POOL			56709/68151 - THOREAU/SAN JUAN AR	01 - 31							

(B)(4)

ZONE SUBTOTAL (B)(4)

INVOICE AMOUNT: (B)(5) (B)(7)(e)

(B)(4)

8390 . TW-NM - TWSJ POOL - 20835 - 1000 - 03 → $

99291 Transp
Cd 2000

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

PREPARER NAME/ID: Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 11/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.77
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT						DELIVERY					FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 10/2000 Accounting													
RENT MONTH ACTIVITY													
10/2000	58648	san juan pool	000105017	SJA		0							
10/2000	0					56709	thoreau/san juan area boundary	000068151	THO				
10/2000	58648	san juan pool	000105017	SJA		56709	thoreau/san juan area boundary	000068151	THO				
Subtotal By Delivery Location													
Subtotal Of Current Month Activity													
TOTAL MONTH ACTIVITY													
ENDING IMBALANCE													

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

[redacted]

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. (B)(4) [redacted]
Bill Pty (Duns): 008427692 (B)(5) (B)(7)(e)

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205682
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4) [redacted]
Routing # (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX 75284-0607

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) [redacted] (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)		[redacted]			(B)(4) (B)(5) (B)(7)(e)	[redacted]	

ZONE SUBTOTAL [redacted]

INVOICE AMOUNT: [redacted]

8390 - TW - NM - TW THOREAU - 20748 - 1000 - 03 → (B)(4) (B)(5) (B)(7)(e) [redacted]

[redacted]

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

(B)(4)
(B)(5)
(B)(7)(e)

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct No.:
(B)(5)
Bill Pty (Duns):
(B)(7)(e)

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205528
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account #
Routing #
Dallas TX. 75284-0607
(B)(4)
(B)(5)
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Commodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4)
(B)(5)
(B)(7)(e)

ZONE SUBTOTAL

INVOICE AMOUNT:

(B)(4)
(B)(5)
(B)(7)(e)

8390 - TCO - NM - TWTHOREAU - 20748 - 1000 - 03

(B)(4)
(B)(5)
(B)(7)(e)

(B)(5)

(B)(4)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

(B)(4)
(B)(5)
(B)(7)(e)

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No.: (B)(4)
Bill Pty (DUNS): (B)(5)
(B)(7)(e)

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205681
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4)
(B)(5)
(B)(7)(e)

ZONE SUBTOTAL

INVOICE AMOUNT: (B)(4) (B)(5) (B)(7)(e)

8390 - HW - NM - TWTHOREAU - 20747 - 1000 - 03 (B)(4) (B)(5) (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

ENRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

(B)(4) (B)(5) (B)(7)(e) [redacted]

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796851

(B)(4) (B)(5) (B)(7)(e) [redacted]

Invoice Date:	November 02, 2000
Net Due Date:	November 13, 2000
Inv ID:	205527
Beg Tran Date	End Tran Date
October 01, 2000	October 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
(B)(4) (B)(5) (B)(7)(e) [redacted]
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e) [redacted]

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Rec Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Commodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4) (B)(5) (B)(7)(e) [redacted]

ZONE SUBTOTAL

INVOICE AMOUNT:

8390-Tw-mm-TwTHOREAU-20747-1000-03

(B)(4) (B)(5) (B)(7)(e) [redacted]

(B)(4) (B)(5) (B)(7)(e) [redacted]

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

STMT D/T: 11/02/2000 11:20

PREPARER NAME/ID: Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 11/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.77
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	FUEL Qty	IMBALANCE Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 10/2000 Accounting												0	
RENT MONTH ACTIVITY													(B)(4)
10/2000	56709	thoreau/san juan area boundary	000068151	THO	300,985	10487	socal needles	000000208	WTH	287,432	13,553	0	(B)(5)
Subtotal Of Current Month Activity					300,985					287,432	13,553	0	(B)(7)(e)
TOTAL MONTH ACTIVITY					300,985					287,432	13,553	0	
ENDING IMBALANCE												0	

99290 Fuel
Oct 2000

(B)(4)
(B)(5)
(B)(7)(e)

STMT D/T: 11/02/2000 11:20

PREPARER NAME/ID: Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 11/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.77
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT						DELIVERY					FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 10/2000 Accounting												0	
CURRENT MONTH ACTIVITY													
10/2000	56709	thoreau/san juan area boundary	000068151	THO	2	0				0	0	2-	
10/2000	0				0	10487	socal needles	000000208	WTH	2	0	2	
10/2000	56709	thoreau/san juan area boundary	000068151	THO	300,666	10487	socal needles	000000208	WTH	287,132	13,534	0	
Subtotal By Delivery Location					300,666					287,134	13,534	2	
Subtotal Of Current Month Activity					300,668					287,134	13,534	0	
TOTAL MONTH ACTIVITY					300,668					287,134	13,534	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

NOVEMBER 2000

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu		Adj $
	(B)(7)(e) (B)(4)		0		
			0		
			1,437	✓	
			25,852	✓	(B)(7)(e)
			0		

*See SJ

DUPLICATE

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Enserco Energy Inc.	ConocoPhillips Company	
350 Indiana St.	Chase Manhattan Bank, N.A.	
Suite 200	Acct [redacted] (B)(4)	
Golden, CO 80401	ABA [redacted] (B)(5)	
	New York, NY 10005-140(B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (303) 568-3232	Telephone: (281) 293-5838	
Fax: (303) 568-3250	Fax: (281) 293-3940	

Statement Number:	R11007670
Billing Period:	Nov-2000
Statement Date:	**December 8, 2000**
Due Date:	December 25, 2000
Payment Method:	Wire
Terms:	Later of the 25th of the month or 10 days from receipt of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Oct-2000			**Contract:**	15333 - GISB w/special provision			**Deal:** 15333-26			
1	11-Oct	11-Oct	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Reverse Item 9 of Stmt R10007402	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
2	11-Oct	11-Oct			Commodity	12,000	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
Delivery Period:	Oct-2000			**Contract:**	15333 - GISB w/special provision			**Deal:**			
3	11-Oct	11-Oct	WFS	MANZAN-MANZAN	Reverse Item 13 of Stmt R10007402	-22,000	MMBtu		US$ MMBtu		
4	11-Oct	11-Oct			Commodity	10,000	MMBtu		US$ MMBtu		
									Sale Sub-T		
					Statement Total:					[redacted]	

THIS IS A CERTIFIED COPY OF THE ORIGINAL INVOICE.

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct No. [redacted]
(B)(5)
Bill Pty (Duns): 008427692
(B)(7)(e)

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	206584
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # [redacted]
Routing # [redacted]
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

(B)(4)
(B)(5)
(B)(7)(e)

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Reservation					56498/89310 - BLOOMFIELD COMPRESS			56709/68151 - THOREAU/SAN JUAN AR	01 - 30	0	[redacted]					
														ZONE SUBTOTAL	600,	
														INVOICE AMOUNT:	*600,*	

(B)(4)
(B)(5)
(B)(7)(e)

8390 - Tw - NM - Tuesspool - 20835 - 1100 - 03

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Transcontinental Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No: [redacted] (B)(4) (B)(5) (B)(7)(e)
Bill Pty (Dun):

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	207043
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # [redacted]
Routing # [redacted] (B)(4) (B)(5) (B)(7)(e)
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Commodity					58648/105017 - SAN JUAN POOL			56709/68151 - THOREAU/SAN JUAN AR	01	30	[redacted]					

(B)(4) (B)(5) (B)(7)(e)

ZONE SUBTOTAL [redacted]

INVOICE AMOUNT: [redacted] (B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TWSJPOOL-20835·1100-03 [redacted] (B)(4) (B)(5) (B)(7)(e)

hippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Contract Balance Statement
For Accounting Period : 12/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $5.37
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT						DELIVERY				FUEL	IMBALANCE
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn		Imb
BEGINNING IMBALANCE											
Balance From 11/2000 Accounting											
CURRENT MONTH ACTIVITY											
11/2000	58648	san juan pool				5[illegible]	horeau/san juan area boundary	000068151	TH[illegible]		
Subtotal Of Current Month Activity											
TOTAL MONTH ACTIVITY											
ENDING IMBALANCE											

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

NRON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

12/14/00

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Addr (B)(4)
Bill Pty (B)(5)
(B)(7)(e)

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	206577
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing (B)(4)
Dallas TX. 75284-0607 (B)(5)
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transp
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Rec Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4) (B)(5) (B)(7)(e)

ZONE SUBTOTAL

INVOICE AMOUNT:

8390-TW-NM-TW THOREAU -20747 -1100-03 → (B)(4) (B)(5) (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

hippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Transcontinental Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No (B)(4)
Bill Pty (Duns) (B)(5)
(B)(7)(e)

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	206578
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4)
(B)(5)
(B)(7)(e) ZONE SUBTOTAL

INVOICE AMOUNT: (B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TW THOREAU -20748-1100-03

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

12/14/00

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. (B)(4)
Bill Pty (B)(5)
(B)(7)(e)

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	207042
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
R ot Zone : THOREAU								*Delivery Zone : W. THOREAU*								
Commodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4) (B)(5) (B)(7)(e)

ZONE SUBTOTAL (B)(4) (B)(5)

INVOICE AMOUNT: (B)(7)(e)

(B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TWTHOREAU-20748-1100-03

ippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

ote :

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081 (B)(4)
(B)(5)
HOUSTON, TX 770796651 Acct No. (B)(7)(e)
Bill Period

Invoice Date:	December 04, 2000
Net Due Date:	December 14, 2000
Inv ID:	207041
Beg Tran Date	End Tran Date
November 01, 2000	November 30, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU								*Delivery Zone : W. THOREAU*								
Commodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES								

(B)(4) (B)(5) (B)(7)(e)

ZONE SUBTOTAL

INVOICE AMOUNT: (B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TW THOREAU - 20747-1100-03 (B)(4) (B)(5) (B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Contract Balance Statement
For Accounting Period : 12/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $5.37
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY				FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 11/2000 Accounting													
RRENT MONTH ACTIVITY				(B)(4) (B)(5) (B)(7)(e)					(B)(4) (B)(5) (B)(7)(e)				
11/2000	56709	thoreau/san juan area boundary	000068151			10487	socal needles	000000208	WTR				
Subtotal Of Current Month Activity													
TOTAL MONTH ACTIVITY													
ENDING IMBALANCE													

(B)(4)
(B)(7)(e)

(B)(7)(e)
(B)(4)

Contract Balance Statement
For Accounting Period : 12/2000

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $537
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 11/2000 Accounting													
CURRENT MONTH ACTIVITY													
11/2000	56709	thoreau/san juan area boundary	000068151	THO		10487	socal needles	000000208	W				
Subtotal Of Current Month Activity													
TOTAL MONTH ACTIVITY													
ENDING IMBALANCE													

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

DECEMBER 2000

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $	
	(B)(4)		0		
			0	(B)(4)	*See SJ
	(B)(7)(e)		1,586		
			28,728	(B)(7)(e)	
			0		

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. (B)(4)
Bill Pty (Duns): (B)(5) 008427692
(B)(7)(e)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208368
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Acct (B)(4)
Routing # (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amou (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Reservation					56498/89310 - BLOOMFIELD COMPRESS			56709/68151 - THOREAU/SAN JUAN AR	01 - 31							

ZONE SUBTOTAL 620,

INVOICE AMOUNT: 620,

(B)(4)
(B)(5)
(B)(7)(e)

8390-TW-NM-TWSJPOOL-20835-1200-03

RVFee

(B)(4)
(B)(5)
(B)(7)(e)

ppers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
te :

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

illable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
(B)(5)
Bill Pty (B)(7)(e)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208826
Beg Tran Date	December 01, 2000
End Tran Date	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # (B)(4)
Routing # (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: *$701.95*

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Rcpt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Commodity			58648/105017 - SAN JUAN POOL			56709/68151 - THOREAU/SAN JUAN AR			01		(B)(4) (B)(5) (B)(7)(e)				638,132	(B)(4) (B)(5) (B)(7)(e)
											ZONE SUBTOTAL				638,132	
											INVOICE AMOUNT:				*638,132*	

8390-TW-NM-TWSJPOOL-20835-1200-03

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Contract Balance Statement
For Accounting Period : 01/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD. CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $8.41
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE) : 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	FUEL Qty	IMBALANCE Qty	Imb Value
		RECEIPT					DELIVERY						
BEGINNING IMBALANCE													
Balance From 12/2000 Accounting													
CURRENT MONTH ACTIVITY													
12/2000	58648	san juan pool	000105017	SJA	639,717	56709	thoreau/san juan area boundary	000068151	THO	638,132	1,585		
Subtotal Of Current Month Activity					639,717					638,132	1,585		
TOTAL MONTH ACTIVITY					639,717					638,132	1,585		
ENDING IMBALANCE													

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct No: (B)(5)
Bill Pty (Duns): (B)(7)(e) 008427692

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208361
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Acct: (B)(4)
Routing: (B)(5)
Dallas TX, 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX, 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES	01 - 31						310,000	
														ZONE SUBTOTAL	310,000	
														INVOICE AMOUNT:	310,000	

(B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TWTHOREAU-20747-1200-03 (B)(4) (B)(5) (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ppers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

ote :

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. (B)(4) (B)(5)
Bill Pty (Billing): 008427692 (B)(7)(e)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208362
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES	01 - 31							

ZONE SUBTOTAL 310,000

INVOICE AMOUNT: 3 (B)(4) (B)(5) = (B)(7)(e)

8390 · TW · NM - TW THOREAU - 20748 - 1200 - 03 — 9

(B)(4)
(B)(5)
(B)(7)(e)

ippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
ote :

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Wire

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct (B)(4)
Bill Pty (Du(B)(5)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208824
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Rou(B)(4)
Dal(B)(5) 75284-0607
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transporta(B)(7)(e)
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Re[redacted]pt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
ommodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES		01 - 31					300,118	
															ZONE SUBTOTAL	300,118
															INVOICE AMOUNT:	*300,118*

(B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TW/THOREAU-20747-1200-03 → (B)(4) (B)(5) (B)(7)(e) OK

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No (B)(4)
Bill Pty (B)(5)
(B)(7)(e)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208825
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account [redacted]
Routing [redacted]
Dallas TX. 75284-0607

(B)(4)
(B)(5)
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20748 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : *THOREAU*						*Delivery Zone : W. THOREAU*										
Commodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)	31					309,285	[redacted] (B)(4) (B)(5) (B)(7)(e)
											ZONE SUBTOTAL				309,285	
											INVOICE AMOUNT:				*309,285*	

8390-TW-NOM-TW THOREAV.20748.1200-03 → [redacted] (B)(4) (B)(5) (B)(7)(e)

Southwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 01/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD. CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $8.41
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 12/2000 Accounting												0	
CURRENT MONTH ACTIVITY													
12/2000	56709	thoreau/san juan area boundary	000068151	THO	314,279	10487	socal needles	000000208	WTH	300,118	14.161	(B)(4) (B)(5) (B)(7)(e)	
Subtotal Of Current Month Activity					314,279					300,118	14.161		
TOTAL MONTH ACTIVITY					314,279					300,118	14,161	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Contract Balance Statement
For Accounting Period : 01/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Amy Mulligan
CONTACT PHONE : (713) 853-0439

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $8.41
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY				FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 12/2000 Accounting												0	
CURRENT MONTH ACTIVITY													
12/2000	56709	thoreau/san juan area boundary	000068151	THO	323,853	10487	socal needles	000000208	WTH	309,285	14,568	0	
Subtotal Of Current Month Activity					323,853					309,285	14,568	0	
TOTAL MONTH ACTIVITY					323,853					309,285	14,568	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

APRIL 2001

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $
	(B)(4)		0	(B)(4)
			0	*See SJ
			0	*See SJ
	(B)(7)(e)		1,400	(B)(7)(e)
			24,999	
			0	
			4,143	

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

WWC 09323 0501

Payee: 007933047

lable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct (B)(4)
Bill Pty (B)(5) 008427692

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212209
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
D(B)(7)(e) 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

/c Req K: 20835 Svc Cd Prop: Firm Transpo(B)(7)(e)
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount (B)(4) (B)(5) (B)(7)(e)

rge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
' Zone : SAN JUAN						Delivery Zone : THOREAU										
ervation					56498/89310 - BLOOMFIELD COMPRESS			56709/68151 - THOREAU/SAN JUAN AR	01	30	(B)(4) (B)(5) (B)(7)(e)				600,000	
											ZONE SUBTOTAL				600,000	
											INVOICE AMOUNT:				600,000	

(B)(4) (B)(5) (B)(7)(e)

8390-TW-NM-TWSP001-20835-0401-03 →

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

lable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No: (B)(4) (B)(5) (B)(7)(e)
Bill Pty (Duns):

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212223
Beg Tran Date	April 01, 2001
End Tran Date	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

rc Req K: 20835 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

rge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : SAN JUAN						**Delivery Zone : THOREAU**										
imodity			58648/105017		- SAN JUAN POOL	56709/68151		- THOREAU/SAN JUAN AR	01 - 30						559,125	
															ZONE SUBTOTAL 559,125	
															INVOICE AMOUNT: 559,125	

(B)(4) (B)(5) (B)(7)(e)

8390 - TW-NM - TWSJ POOL - 20835 - 0401 - 03 → (B)(4) (B)(5) (B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Northwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 05/2001

VC REQ NAME :

ONOCO, INC.
TTN : LISA BARRERA
)0 NORTH DAIRY ASHFORD, CH1081
OUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.87
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
g Date / d Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
EGINNING IMBALANCE													
Balance From 04/2001 Accounting												0	
ENT MONTH ACTIVITY													
/2001	58648	san juan pool	000105017	SJA	560,524	56709	thoreau/san juan area boundary	000068151	THO	559,125	1,399		
Subtotal Of Current Month Activity					560,524					559,125	1,399	0	
TAL MONTH ACTIVITY					560,524					559,125	1,399	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

09473
0501

Payee: 007933047

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
(B)(5)
(B)(7)(e)
Bill No.
Bill Plans): 008427692

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212225
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

(B)(4)
(B)(5)
(B)(7)(e)

: Req K: 20748 Svc Cd Prop: Firm Tran(B)(4)(B)(5)(B)(7)(e)n
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount:

ge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						*Delivery Zone : E. THOREAU*										
nodity			56709/68151		THOREAU/SAN JUAN ARE	56943/12585		VALERO WARD	02 - 03						1,431	
														ZONE SUBTOTAL	1,431	
ipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
nodity			56709/68151		THOREAU/SAN JUAN ARE	10487/208		SOCAL NEEDLES	01 - 30						265,358	
														ZONE SUBTOTAL	265,358	
														INVOICE AMOUNT:	(B)(4)266,789 (B)(5) (B)(7)(e)	

8390- TW-NM-TW THOREAU- 20748-0401-03

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

wire

09323
0501

Payee: 007933047

lable Party: CONOCO, INC
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No [redacted]
Bill Pty (Duns [redacted]

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212224
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account [redacted]
Routing [redacted]
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20747 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: [redacted]

rm Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						*Delivery Zone : E. THOREAU*					(B)(4)					[redacted]
modity			56709/68151		THOREAU/SAN JUAN ARE	56943/12585		VALERO WARD	02 - 03		(B)(5)				1,037	
											(B)(7)(e)				(B)(4)	
											ZONE SUBTOTAL				(B)(5)	
eipt Zone : THOREAU						*Delivery Zone : W. THOREAU*					(B)(4)				(B)(7)(e)	
modity			56709/68151		THOREAU/SAN JUAN ARE	10487/208		SOCAL NEEDLES	01 - 30		(B)(5)				264,500	
											(B)(7)(e)					
											ZONE SUBTOTAL				264,500	
											INVOICE AMOUNT:				265,537	
															(B)(4)	
															(B)(5)	
															(B)(7)(e)	

8390 - TW-NM-TW THOREAU - 20747-0401-03 → $ [redacted]

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

JD
RON

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

09323
0501

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct (B)(5)
Bill Pty (Duns) 008427692 (B)(7)(e)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212215
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # (B)(4)
Routing # (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20748 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

rm Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						*Delivery Zone : W. THOREAU*										
rvation					56709/68151 - THOREAU/SAN JUAN ARE	10487/208		- SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)	04/30					300,00	
										ZONE SUBTOTAL				(B)(4) (B)(5) (B)(7)(e)	300,00	
										INVOICE AMOUNT:					300,00	

8390-TW-NM-TWTHOREAU-20748-0401-03 →

(B)(4)
(B)(5)
(B)(7)(e)

rs may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Northwestern Pipeline Company / 00/933047
Contract Balance Statement
For Accounting Period : 05/2001

/C REQ NAME :

)NOCO, INC.
TTN : LISA BARRERA
0 NORTH DAIRY ASHFORD, CH1081
)USTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.87
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
g Date / d Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
:GINNING IMBALANCE													
Balance From 04/2001 Accounting												0	
.ENT MONTH ACTIVITY													
'2001	56709	thoreau/san juan area boundary	000068151	THO	276,963	10487	socal needles	000000208	WTH	264,500	12,463	(B)(4) 0	
'2001	56709	thoreau/san juan area boundary	000068151	THO	1,051	56943	valero ward	000012585	WTX	1,037	14	(B)(5) 0	
Subtotal Of Current Month Activity					278,014					265,537	12,477	(B)(7)(e) 0	
TAL MONTH ACTIVITY					278,014					265,537	12,477	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Contract Balance Statement
For Accounting Period : 05/2001

'C REQ NAME :

)NOCO, INC.
:TN : LISA BARRERA
0 NORTH DAIRY ASHFORD, CH1081
)USTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.87
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT						DELIVERY					FUEL	IMBALANCE	
g Date / d Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
GINNING IMBALANCE													
Balance From 04/2001 Accounting												0	
:ENT MONTH ACTIVITY													
2001	56709	thoreau/san juan area boundary	000068151	THO	277,861	10487	socal needles	000000208	WTH	265,358	12,503	0	
2001	56709	thoreau/san juan area boundary	000068151	THO	1,450	56943	valero ward	000012585	WTX	1,431	19	0	
Subtotal Of Current Month Activity					279,311					266,789	12,522	0	
TAL MONTH ACTIVITY					279,311					266,789	12,522	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 05/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $4.87
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20094
SVC CD : Int Transport
SVC REQ K DATE : 07/26/1991

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 04/2001 Accounting												0	
CURRENT MONTH ACTIVITY													
04/2001	58649	central pool	000105015	CEN	5,066	8516	oasis block 16 - del	000034476	WTX	5,000	66	0	
04/2001	56709	thoreau/san juan area boundary	000068151	THO	1,800	56943	valero ward	000012585	WTX	1,776	24	0	
04/2001	58649	central pool	000105015	CEN	304,583	56943	valero ward	000012585	WTX	300,596	3,987	0	
Subtotal By Delivery Location					306,383					302,372	4,011	0	
04/2001	58649	central pool	000105015	CEN	5,066	500515	valero pecos del	000217057	WTX	5,000	66	0	
Subtotal Of Current Month Activity					316,515					312,372	4,143	0	
TOTAL MONTH ACTIVITY					316,515					312,372	4,143	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Post-it® Fax Note 7671	Date 8/6	# of pages ▶ 2
To Brenda Wells	From Linda Marchand	
Co./Dept.	Co.	
Phone #	Phone # 281-293-2529	
Fax # 661-4057	Fax #	

MAY 2001

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $
	(B)(4)		0	(B)(4)
			0	*See SJ
	(B)(7)(e)		0	(B)(7)(e) *See SJ
			1,680	
			24,103	✓
			0	
			0	*See SJ
			3,016	
			3,910	

(B)(4) (B)(7)(e)

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

ible Party: CONOCO, INC.
tn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct No.
(B)(5)
Bill Pty (Duns): 008427692
(B)(7)(e)

Invoice Date:	June 04, 2001
Net Due Date:	[redacted] 2001
Inv ID:	212944
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
(B)(4)
Account #
(B)(5)
R/T #
(B)(7)(e)
Dallas TX 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

: Req K: 20835 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) [redacted] (B)(5) (B)(7)(e)

ype	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
elpt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
rvation					56498/89310 - BLOOMFIELD COMPRESS			56709/68151 - THOREAU/SAN JUAN AR	(B)(4) (B)(5) (B)(7)(e)		[redacted]				62(	[redacted]
									ZONE SUBTOTAL						62(	
									INVOICE AMOUNT:						62(	

(B)(4)
(B)(5)
(B)(7)(e)

8390 - TW - NM - TWSD POOL - 20835 - 0501 - 03

[redacted]

(B)(4)
(B)(5)
(B)(7)(e)

pers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
te :

Contract Balance Statement
For Accounting Period : 06/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
500 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.82
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	FUEL Qty	IMBALANCE Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 05/2001 Accounting													
CURRENT MONTH ACTIVITY													
5/2001	58648	san juan pool	000105017	SJA	540,352	56709	thoreau/san juan area boundary	000068151	THO	539,004	(B)(4)		
Subtotal Of Current Month Activity					540,352					539,004	(B)(5)		
											(B)(7)(e)		
TOTAL MONTH ACTIVITY					540,352					539,004	1,348		
ENDING IMBALANCE													

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. : [redacted] (B)(4)
Bill Pty (Duns): 008427692 (B)(5)
(B)(7)(e)

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212838
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account : [redacted] (B)(4)
Routing # (B)(5)
Dallas TX. 75284-0607
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20835 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

e Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
eipt Zone : SAN JUAN						***Delivery Zone : THOREAU***										
modity			58648/105017		- SAN JUAN POOL	56709/68151		- THOREAU/SAN JUAN AR	01 - 31		0.0011	[redacted]			539,004	[redacted]
											ZONE SUBTOTAL				539,004	
											INVOICE AMOUNT:				539,004	

(B)(4)
(B)(5)
(B)(7)(e)

[redacted]

9390-TW-NM-TWTHOREAU-20835-0801-03

(B)(4)
(B)(5)
(B)(7)(e)

[redacted]

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

ible Party: CONOCO, INC.
tn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No.: (B)(4) (B)(5)
Bill Pty (Bank): 008427692 (B)(7)(e)

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212940
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # (B)(4) (B)(5)
Routing # (B)(7)(e)
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

: Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

ype	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
elpt Zone : THOREAU						Delivery Zone : W. THOREAU										
rvation			56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES			01 - 31						310.00	
														ZONE SUBTOTAL	310,00	
														INVOICE AMOUNT:	310.00	

(B)(4)
(B)(5)
(B)(7)(e)

8390-TW-NM-TWTHOREAU-20748-0501.03

(B)(4)
(B)(5)
(B)(7)(e)

pers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

ible Party: CONOCO, INC.
tn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
(B)(5)
Acct No.
(B)(7)(e)
Bill Pty (Duns): 008427692

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212939
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing
Dallas TX 75284-0607
(B)(4)
(B)(5)
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

: Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
ept Zone : THOREAU						*Delivery Zone : W. THOREAU*										
rvation			56709/68151		THOREAU/SAN JUAN ARE	10487/208		SOCAL NEEDLES	01 - 31						310,000	
														ZONE SUBTOTAL	310,000	
														INVOICE AMOUNT:	310,000	

(B)(4)
(B)(5)
(B)(7)(e)

8390 - TW - NM - TWTHOREAU - 20747 - 0501 - 03

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Contract Balance Statement
For Accounting Period : 06/2001

'VC REQ NAME :

'ONOCO, INC.
TTN : LISA BARRERA
00 NORTH DAIRY ASHFORD, CH1081
IOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.82
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
eg Date / nd Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
EGINNING IMBALANCE													
Balance From 05/2001 Accounting												0	
RRENT MONTH ACTIVITY													
/2001	56709	thoreau/san juan area boundary	000068151	THO	302,607	10487	socal needles	000000208	WTH	288,982	13,625	0	
Subtotal Of Current Month Activity					302,607					288,982	13,625	0	
TAL MONTH ACTIVITY					302,607					288,982	13,625	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Contract Balance Statement
For Accounting Period : 06/2001

VC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
00 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.82
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT						DELIVERY					FUEL	IMBALANCE	
eg Date / nd Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
EGINNING IMBALANCE													
Balance From 05/2001 Accounting												0	
RRENT MONTH ACTIVITY													
/2001	56709	thoreau/san juan area boundary	000068151	THO	231,292	10487	socal needles	000000208	WTH	220,881	10,411	0	
/2001	56709	thoreau/san juan area boundary	000068151	THO	5,105	56943	valero ward	000012585	WTX	5,038	67	0	
/2001	56709	thoreau/san juan area boundary	000068151	THO	0	500515	valero pecos del	000217057	WTX	0	0	0	
Subtotal Of Current Month Activity					236,397					225,919	10,478	0	
TAL MONTH ACTIVITY					236,397					225,919	10,478	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns):

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212837
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account #
Routing #
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20748 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amoun

e Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
eipt Zone : THOREAU						Delivery Zone : E. THOREAU										
modity			56709/68151		THOREAU/SAN JUAN ARE	56943/12585		VALERO WARD	08 - 08						5,03	
										ZONE SUBTOTAL					5,03	
eipt Zone : THOREAU						Delivery Zone : W. THOREAU										
modity			56709/68151		THOREAU/SAN JUAN ARE	10487/208		SOCAL NEEDLES	01 - 31						220,88	
										ZONE SUBTOTAL					220,88	
										INVOICE AMOUNT:					225,91	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

pers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
e :

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

ıble Party: CONOCO, INC.
:tn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4) No.
Bill Pty (Duns) (B)(5)
(B)(7)(e)

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212836
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas, TX 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

: Req K: 20747 Svc Cd Prop: Firm Transportation (B)(4) (B)(5) (B)(7)(e)
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amou (B)(4) (B)(5) (B)(7)(e)

;e Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
eipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
nodity					56709/68151 - THOREAU/SAN JUAN ARE			10487/208 - SOCAL NEEDLES		01 - (B)(4) (B)(5) (B)(7)(e)					288,982	(B)(4) (B)(5) (B)(7)(e)

ZONE SUBTOTAL 288,982

INVOICE AMOUNT: *288,982*

P390 · TW-NM - TWCAPOL · [redacted] -20747-0501-03 (B)(4) (B)(5) (B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct: (B)(4)
Bill Pty (D(B)(5) 008427692

Invoice Date:	June 04, 2001
Net Due Date:	June 14, 2001
Inv ID:	212832
Beg Tran Date	End Tran Date
May 01, 2001	May 31, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
(B)(4)
Rout (B)(5)
Dallas TX, 75284-0607
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20094 Svc Cd Prop: Int Transport (B)(7)(e)
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

ge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
eipt Zone : E. THOREAU						*Delivery Zone : E. THOREAU*										
modity			58649/105015		CENTRAL POOL	8516/34476		OASIS BLOCK 16 - DEL	12 - 13						27,000	
modity			58649/105015		CENTRAL POOL	56943/12585		VALERO WARD	11 - 12						18,333	
modity			58649/105015		CENTRAL POOL	56943/12585		VALERO WARD	22 - 29						786	
modity			58649/105015		CENTRAL POOL	500515/217057		VALERO PECOS DEL	24 - 31						504	
modity			60921/126995		PNM RIO PUERCO BI-DE	56943/12585		VALERO WARD	12 - 29						140,874	
modity			60921/126995		PNM RIO PUERCO BI-DE	500515/217057		VALERO PECOS DEL	24 - 31						39,476	
														ZONE SUBTOTAL	226,993	
eipt Zone : SAN JUAN						*Delivery Zone : E. THOREAU*										
modity			58648/105017		SAN JUAN POOL	500515/217057		VALERO PECOS DEL	08 - 0						10,999	
modity			58648/105017		SAN JUAN POOL	500515/217057		VALERO PECOS DEL	10 - 1						10,000	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntar

...Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 06/2001

VC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
00 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.82
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20094
SVC CD : Int Transport
SVC REQ K DATE : 07/26/1991

RECEIPT						DELIVERY					FUEL	IMBALANCE	
eg Date / nd Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
EGINNING IMBALANCE													
Balance From 05/2001 Accounting												0	
RRENT MONTH ACTIVITY													
/2001	58649	central pool	000105015	CEN	27,358	8516	oasis block 16 - del	000034476	WTX	27,000	358	0	
/2001	58648	san juan pool	000105017	SJA	0	56943	valero ward	000012585	WTX	0	0	0	
/2001	58649	central pool	000105015	CEN	19,374	56943	valero ward	000012585	WTX	19,119	255	0	
/2001	60921	pnm rio puerco bi-del	000126995	CEN	142,745	56943	valero ward	000012585	WTX	140,874	1,871	0	
Subtotal By Delivery Location					162,119					159,993	2,126	0	
/2001	58648	san juan pool	000105017	SJA	21,331	500515	valero pecos del	000217057	WTX	20,999	332	0	
/2001	58649	central pool	000105015	CEN	532	500515	valero pecos del	000217057	WTX	524	8	0	
/2001	60921	pnm rio puerco bi-del	000126995	CEN	40,000	500515	valero pecos del	000217057	WTX	39,476	524	0	
Subtotal By Delivery Location					61,863					60,999	864	0	
Subtotal Of Current Month Activity					251,340					247,992	3,348	0	
TAL MONTH ACTIVITY					251,340					247,992	3,348	0	
DING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

PNM
CONOCO Inc.
Plant Settlement, Rm 150-1057 ST
PO BOX 1267
PONCA CITY, OK 74602-1267
ATTN: ROD KUTZ

REVISED 06/19/01

Bill Date	Account Number	
13-Jun-01	[redacted]	(B)(4) (B)(5) (B)(7)(e)

Transportation Shipper Summary

Current Charges	(B)(4) (B)(5) $ (B)(7)(e)	[redacted]
TOTAL AMOUNT DUE		

Contract Number		Previously Billed	Current Charges	Total
T30174	(B)(4) (B)(5) (B)(7)(e)	$ [redacted]	(B)(4) $ (B)(5) (B)(7)(e) [redacted]	$ $
T32110		$	$	$
TOTAL AMOUNT DUE		$	$	

To: Brenda Will
Fax: 661-4057

(B)(4) (B)(5) (B)(7)(e) [redacted] (B)(4) (B)(5) (B)(7)(e)

Please Detach and Return This Portion With Your Payment
Amounts Unpaid After 30 Days Are Subject To A 1.5% Charge.

Account Number
[redacted]
(B)(4) (B)(5) (B)(7)(e)

Total Amount Due (B)(4) (B)(5) (B)(7)(e) [redacted]

Amount Enclosed $

PNM Gas Services
ATTN: Transportation Dept. MS-2606
Alvarado Square
Albuquerque, NM 87158-2606

PLEASE PAY [redacted] NO LATER THAN JULY 3, 2001
(B)(4)

0 1 (B)(4) (B)(5) (B)(7)(e) [redacted] 0000 (B)(5) (B)(7)(e)

TRANSPORTATION SERVICES END-USER DETAIL

Shipper: CONOCO, INC.

(B)(4)

Account Number: (B)(5)

Contract Number: (B)(7)(e)

REVISED 06/19/01

End-User: CONOCO, INC. - TWRP- CAPACITY DEMAND CHARGE

Bill Date	Account Number	Service Address: 9190 TWRP
08-Jun-01	(B)(4)	BLOOMFIELD, NM 87413
Service #200	(B)(5)	
UNMETERED	(B)(7)(e)	
SERVICE		

(B)(4)

Cost for (B)(5) MMBTUS - UNDELIVERED TRANSPORTATION (B)(4)

GXCA - CAPACITY DEMAND CHARGE OFF SYSTEM (B)(5)

(B)(7)(e)

(B)(7)(e)

TRANSMISSION

77,255.000 MMBTU @

Gross Receipt Tax

Total Current Charges

Total Gas Service

(B)(4)

(B)(5)

(B)(7)(e)

TRANSPORTATION SERVICES END-USER DETAIL

Shipper: CONOCO, INC.

Account Number: 06482570106723 85
Contract Number: T32110

End-User: CONOCO/BLANCO HUB

Bill Date	Account Number	Service Address
11-JUN-2001	07820290108061 54	FACILITY 9440 SAN JUAN PUEBLO, NM 87566-000

Service #200 Gas Meter #1206974

Reading Type	Chart Read Date	Bill Days	Current Chart Read		Meter Constant		CCF Used		Conv. Factor		Therms
ACTUAL	31-MAY-2001	120	327155	X	1.000	=	327155.000	X	1.030000	=	336969.650

Cost for 336,969 Therms used is as follows:
GF2V-Trans Transm, Off-System, Rate 70
Transmission
336,969.650 Therms @ [redacted]

Gross Receipts Tax

Total Current Charges (B)(4)

Total Gas Service (B)(5)

(B)(7)(e) [redacted]

TRANSPORTATION SERVICES END-USER DETAIL

Shipper: CONOCO, INC.

Account Number: 06482570106723 85
Contract Number: T32110

End-User: CONOCO NWNM

Bill Date	Account Number	Service Address:
11-JUN-2001	1154045381193741	Seasonal Firm Mkt Rate Twrp BLOOMFIELD, NM 87413

Service #200 Gas
Meter #1207074

Reading Type	Chart Read Date	Bill Days	Current Chart Read		Meter Constant		CCF Used		Conv. Factor		Therms
ACTUAL	31-MAY-2001	30	1763948	X	1.000	=	1763948.000	X	1.036000	=	1827450.128

Cost for 1,827,450 Therms used is as follows:
GW3F-Gas Market Rate, Conoco SNL Firm
NEG

1,827,450.128 Therms @

Gross Receipts Tax

Total Current Charges

(B)(4)

Total Gas Service

(B)(5)

(B)(7)(e)

Will, Brenda K.

From: Rodgers, David C.
Sent: Wednesday, August 06, 2003 10:25 AM
To: Will, Brenda K.
Subject: Transportation Invoice for 99367 for May 2001 Activity on your

Brenda,

I faxed the Transportation Invoice for hook 99367 for May 2001 activity to your fax 661-4057 earlier this morning. GPM was given

(B)(4) (B)(7)(e)

For what it is worth, Brenda, I do think w

(B)(4) (B)(5) (B)(7)(e)

completely differently than if we were collecting tax.

David

6/22/01

Gas Transportation Agreement-NW
With CONOCO INC.
PNMGS Contract # T-32110
Dated 12/01/90

PNM GAS SERVICES
STATEMENT OF GAS BALANCE
FOR THE MONTH OF MAY 2001

RECEIVED BY PNMGS: (5/1/01 - 5/31/01)		MCF @ 14.73	MMBTU
Receipts from - San Juan Interconnect by Displ	- Facility # 009101	0	0
- San Juan Triangle	- Facility # 009407	0	0
- EPNG Rio Puerco	- Facility # 009420	0	0
- Fort Wingate	- Facility # 009430	0	0
- Blanco Hub	- Facility # 009441	176,183	179,530
- Lybrook Plant Outlet	- Facility # 009606	31,894	32,500
- Gallegos-Huerfano CB	- Facility # 009816	0	0
- Kutz Plant to the Albuquerque M/L	- Facility # 030102	0	0
- Conoco Operator Account	- Facility # 600067	0	0
- Otero Elm Ridge Interconnect	- Facility # 090534	0	0
- Huerfano Gas Plant	- Facility # 009664	0	0
GROSS RECEIPTS		208,077	212,030
Less: 2% Fuel and UFG on Rio Puerco Deliveries		(3,516)	(3,583)
Less: 1% Fuel and UFG		(323)	(327)
TOTAL NET RECEIVED		416,154	208,120

(B)(4)
(B)(5)
(B)(7)(e)

DELIVERED BY PNMGS (5/1/01 - 5/31/01)			
Delivery at - TW Rio Puerco Interconnect - Facility # 009190		176,395	182,745
- EPNG Rio Puerco by disp. - Facility # 009421		0	0
TOTAL DELIVERED AT RIO PUERCO	2.00% FUEL & UFG	176,395	182,745
- SJI Del Point To EPNG	- Facility # 009102	0	0
-Blanco Hub by Displacement	- Facility # 009440	32,716	33,697
TOTAL DELIVERED AT SAN JUAN	1.00% FUEL & UFG	32,716	33,697
TOTAL DELIVERED		209,110	216,442

Net received by PNMGS		208,120
Net delivered by PNMGS		216,442
Current Month OVER (UNDER) Delivery to PNMGS		(8,322)
Prior Month OVER (UNDER) Delivery to PNMGS		(237)
Cumulative OVER (UNDER) Delivery to PNMGS	%OUT -3.95%	(8,559)

Prior month delivery	prior mo % out
0	-0.99%

GAS RETAINED		0.00%	0
VOLUME CASHED OUT	——N/A	0.00%	0
VOLUME CASHED OUT	——N/A	0.00%	0
VOLUME SENT TO IR TRADING POOL	——N/A	0.00%	0
MONTH ENDING IMBALANCE		-3.95%	(8,559)

Your Contract Manager is: Lindsey McMurray Telephone: (505) 241-2686

JUNE 2001

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $	
			0		
	(B)(4)		0		*See SJ
			0		(B)(7)(e)
	(B)(7)(e)		27,667		
			0		
			5,996		

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796851

Acct No. : (B)(4)
Bill Pty (Opns): (B)(5)

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213482
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
Citibank NA
(B)(4)
(B)(5)
New York, NY
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20835 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes (B)(7)(e)

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc	Net	Qty	Amount Du
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Reservation				56498/89310	BLOOMFIELD COMPRESS	56709/68151		THOREAU/SAN JUAN ARE	01	30					600,000	
														RESERVATION SUBTOTAL	600,000	
														ZONE SUBTOTAL	600,000	
														INVOICE AMOUNT:	*600,000*	

(B)(4)
(B)(5)
(B)(7)(e)

DUPLICATE

Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 6

To Linda M	From Randy B
Co.	Co.
Dept.	Phone #
Fax # 281-293-2767	Fax #

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must b

Note :

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1061

HOUSTON, TX 770796651

(B)(4)
Acct No (B)(5)
Bill Pty (Dun (B)(7)(e)

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213464
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
Citibank NA
Bank Ac
(B)(4)
ABA No (B)(5)
New York, NY
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20748 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amoun (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc Location Name	Del Loc Prop (POI)	Del Loc Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Surr.	Disc	Net	Qty	Amount Du
Receipt Zone : THOREAU					*Delivery Zone : W THOREAU*									
Reservation			56709/68151	THOREAU/SAN JUAN AUE	10487/208	SOCAL NEEDLES	01-30 (B)(7)(e)						300,000 (B)(4) (B)(5) (B)(7)(e)	
												RESERVATION SUBTOTAL	300,000	
												ZONE SUBTOTAL	300,000	
												INVOICE AMOUNT:	300,000	

DUPLICATE

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be ind

Note :

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No.
Bill Pty (B)(4) [redacted]

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213483
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
Citibank NA
Bank No. (B)(4)
ABA No. (B)(5)
New York, NY (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-653-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e) [redacted]

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Rate	Sur	Disc	Net	Qty	Amount Du
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Reservation			56709/68	151	THOREAU/SAN JUAN AREA	10467/208		SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)	30					300,000	(B)(4) (B)(5) (B)(7)(e) [redacted]
														RESERVATION SUBTOTAL	300,000	
														ZONE SUBTOTAL	300,000	
														INVOICE AMOUNT:	300,000	

DRAFT

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indic

Note :

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 77079-6651

Adj No. [redacted] (B)(4)
Bill Period [redacted] (B)(5)
(B)(7)(e)

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213494
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
Citibank NA
Bank Ac [redacted]
ABA No [redacted]
New York, NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 28835 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes (B)(7)(e)

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

Charge Type	Rept Rat Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (PDI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base Bill Disc Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*							
Commodity			58648/1080017		SAN JUAN POOL	6470968/51		THOREAU/SAN JUAN AREA			[redacted]	582,532	[redacted]
											COMMODITY SUBTOTAL	582,532	
											ZONE SUBTOTAL	582,532	
											INVOICE AMOUNT:	582,532	

(B)(4) (B)(5) (B)(7)(e)

DUPLICATE

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indic

Note :

7136468095 P.02

Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 07/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.20
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20747
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb
BEGINNING IMBALANCE													
Balance From 06/2001 Accounting												(B)(4) 0 (B)(5) (B)(7)(e)	
CURRENT MONTH ACTIVITY													
06/2001	56709	thoreau/san juan area boundary	000068151	THO	299,197	10487	socal needles	000000208	WTH	285,734	13,463	0	
Subtotal Of Current Month Activity					299,197					285,734	13,463	0	
TOTAL MONTH ACTIVITY					299,197					285,734	13,463	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Southwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 07/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.20
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20748
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 06/2001 Accounting													
CURRENT MONTH ACTIVITY													
06/2001	56709	thoreau/san juan area boundary	000068151	THO	283,335	10487	socal needles	000000208	WTH	270,583	12,752		
Subtotal Of Current Month Activity					283,335					270,583	12,752		
TOTAL MONTH ACTIVITY					283,335					270,583	12,752		
ENDING IMBALANCE													

(B)(4)
(B)(7)(e)

Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 07/2001

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Tracy Minter
CONTACT PHONE : (713) 853-7309

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $3.20
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20835
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/1992

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
		Balance From 06/2001 Accounting										0	
CURRENT MONTH ACTIVITY													
06/2001	58648	san juan pool	000105017	SJA	583,984	56709	thoreau/san juan area boundary	000068151	THO	582,532	1,452	0	
		Subtotal Of Current Month Activity			583,984					582,532	1,452	0	
TOTAL MONTH ACTIVITY					583,984					582,532	1,452	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
(B)(5) Acct No.
Bill Pty (Duns
(B)(7)(e)

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213495
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
(B)(4)
(B)(5)
(B)(7)(e)
New York, NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount:
(B)(4)
(B)(5)
(B)(7)(e)

Charge Type	Repl Rat Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Base	Sur.	Disc	Net	Unit Price	Qty	Amount Due
Receipt Zone : THOREAU								***Delivery Zone : W. THOREAU***									
Commodity			56709/68191		THOREAU/SAN JUAN AREA	1487/208		SOCAL NEEDLES								285,734	
															COMMODITY SUBTOTAL	285,734	
															ZONE SUBTOTAL	285,734	
															INVOICE AMOUNT:	285,734	

(B)(4)
(B)(5)
(B)(7)(e)

DUPLICATE

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indic

Note :

7136468085 P.04

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCOPHILLIPS COMPANY
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Bill Pty No.: (B)(4)
Bill Pty (Duns): (B)(5)
(B)(7)(e)

Invoice Date:	July 02, 2001
Net Due Date:	July 13, 2001
Inv ID:	213496
Beg Tran Date	End Tran Date
June 01, 2001	June 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

Remit to Party
Citibank NA
Bank A (B)(4)
ABA (B)(5)
New (B)(7)(e) NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20746 Svc Cd Prop: Firm Transportation
Supporting Document Indicator: TSIN Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
Commodity			56709/68151		- THOREAU/SAN JUAN ABE	10487/208		- SOCAL NEEDLES							270,583	
														COMMODITY SUBTOTAL	270,583	
														ZONE SUBTOTAL	270,583	
														INVOICE AMOUNT:	270,583	

(B)(4) (B)(5) (B)(7)(e)

DRAFT

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indic

Note :

7136468085 P.06

TO: LISA B. ..-2A
639-5329
FROM: Cheryl
WELCH

0001

CONOCO INC.
Plant Settlement, Rm 150-1057 ST
PO BOX 1267
PONCA CITY, OK 74602-1267
ATTN: ROD KUTZ

Bill Date	Account Number
13-Jul-01	(B)(4) (B)(5) (B)(7)(e)

Transportation Shipper Summary

Current Charges (B)(4) $ (B)(5)

TOTAL AMOUNT DUE (B)(7)(e)

Contract Number	Previously Billed	Current Charges	Total
T30174	$ -	$	
T32110	$ -	$	
TOTAL AMOUNT DUE	$ -	$	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Please Detach and Return This Portion With Your Payment
Amounts Unpaid After 30 Days Are Subject To A 1.5% Charge.

(B)(4)
(B)(5)
(B)(7)(e)

Account Number
64825701/0672385

Total Amount Due **$98,571.27**

PNM Gas Services
ATTN: Transportation Dept. MS-2606
Alvarado Square
Albuquerque, NM 87158-2606

Amount Enclosed $

PLEASE PAY $98,571.27 NO LATER THAN AUGUST 1, 2001

0 1 064825701/0672385 0000 98571.27

Cheryl Welch
7/18/01

003299

TRANSPORTATION SERVICES END-USER DETAIL

Shipper: CONOCO, INC.

Account Number:
Contract Number: [redacted] (B)(4)

(B)(5)

End-User: CONOCO NWNM (B)(7)(e)

Bill Date 10-JUL-2001

Account Number [redacted] (B)(4)

Service Address: Seasonal Firm Mkt Rate Twrp
BLOOMFIELD, NM 87413-0000

Service #200 Gas Meter #1207074

Reading Type	Chart Read Date	Bill Days	Current Chart Read	Meter Constant	CCF Used	Conv. Factor	Therms
ACTUAL	30-JUN-2001	30	2912621 X	1.000	= 2912621.000 X	1.030000	= 2999999.630

(B)(5)

(B)(7)(e)

Cost for 2,999,999 Therms used is as follows:

GW3F-Gas Market Rate, Conoco SNL Firm
NEG

2,999,999.630 Therms @ [redacted] (B)(4)

(B)(5)

Gross Receipts Tax

Total Current Charges (B)(7)(e)

Total Gas Service

[redacted]

(B)(4)

(B)(5)

(B)(7)(e)

7/24/01

Gas Transportation Agreement NW
With CONOCO INC.
PNMGS Contract # T32110
Dated 12/01/90

PNM GAS SERVICES
STATEMENT OF GAS BALANCE
FOR THE MONTH OF JUNE 2001

RECEIVED BY PNMGS: (6/1/01 - 6/30/01)		MCF @ 14.73	MMBTU
Receipts from - San Juan Interconnect by Displ	- Facility # 009101	0	0
- San Juan Triangle	- Facility # 009407	0	0
- EPNG Rio Puerco	- Facility # 009420	0	0
- Fort Wingate	- Facility # 009430	0	0
- Blanco Hub	- Facility # 009441	73,913	75,317
- Lybrook Plant Outlet	- Facility # 009606	0	0
- Gallegos-Huerfano CB	- Facility # 009516	0	0
- Kutz Plant to the Albuquerque M/L	- Facility # 030162	214,411	224,458
- Conoco Operator Account	- Facility # 600067	0	0
- Otero Elm Ridge Interconnect	- Facility # 090534	0	0
- Huerfano Gas Plant	- Facility # 009664	0	0
GROSS RECEIPTS		288,324	299,805
Less: 2% Fuel and UFG on Rio Puerco Deliveries		(5,766)	(5,996)
Less: 1% Fuel and UFG		0	0
TOTAL NET RECEIVED		282,558	293,809
DELIVERED BY PNMGS (6/1/01 - 6/30/01)			
Delivery at - TW Rio Puerco Interconnect - Facility # 009190		291,262	300,000
- EPNG Rio Puerco by disp. - Facility # 009421		0	0
TOTAL DELIVERED AT RIO PUERCO	2.00% FUEL & UFG	291,262	300,000
- SJI Del Point To EPNG	- Facility # 009102	0	0
-Blanco Hub by Displacement	- Facility # 009440	0	0
TOTAL DELIVERED AT SAN JUAN	1.00% FUEL & UFG	0	0
TOTAL DELIVERED		291,262	300,000

Net received by PNMGS		293,809
Net delivered by PNMGS		300,000
Current Month OVER (UNDER) Delivery to PNMGS		(6,191)
Prior Month OVER (UNDER) Delivery to PNMGS		(8,559)
Cumulative OVER (UNDER) Delivery to PNMGS	%OUT -5.71%	(14,750)

Prior month delivery	prior mo % out
216,442	-3.95%

GAS RETAINED		0.00%	0
VOLUME CASHED OUT	------N/A	0.00%	0
VOLUME CASHED OUT	------N/A	0.00%	0
VOLUME SENT TO IR TRADING POOL	------N/A	0.00%	0
MONTH ENDING IMBALANCE		-5.71%	(14,750)

Your Contract Manager is: Lindsey McMurray Telephone: (505) 241-2656

(B)(4)
(B)(5)
(B)(7)(e)

MAY 2002

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $	
	(B)(4)		0		*See SJ
			0		
	(B)(7)(e)		31	(B)(7)(e)	
			29,983		
			0		

P.O Box 1168
Houston, Texas 77251-1168

Payee: 007933047

Sold To: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. (B)(4) (B)(5)
Bill Pty (Duns): (B)(7)(e)

Invoice Date:	June 03, 2002
Net Due Date:	June 13, 2002 Wire
Inv ID:	221791
Beg Tran Date	End Tran Date
May 01, 2002	May 31, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Account (B)(4)
R (B)(5)
N (B)(7)(e) NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 20094 Svc Cd Prop: Int Transport
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amou (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN2						*Delivery Zone : SAN JUAN2*										
modity					500539/205063 - WFS LA MAQUINA PLAN	500534/205061 - NWPL LA PLATA I/C DE			14	14					12,335	
														ZONE SUBTOTAL	12,335	
														INVOICE AMOUNT:	12,335	

(B)(4)
(B)(5)
(B)(7)(e)

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicat

Note :

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770786651

Acct No.: [redacted] (B)(4)
Bill Pty (Duns): [redacted] (B)(5)
(B)(7)(e)

Invoice Date:	June 03, 2002
Net Due Date:	June 13, 2002
Inv ID:	221410
Beg Tran Date	End Tran Date
May 01, 2002	May 31, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr:
(B)(4) Bank NA
(B)(5) Account: [redacted]
(B)(7)(e) Routing
New York, NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27666 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						Delivery Zone : W. THOREAU										
Reservation			56498/89310		BLOOMFIELD COMPRESS	10487/208		SOCAL NEEDLES	01-31		[redacted]				620,000	[redacted]
														ZONE SUBTOTAL	620,000	
														INVOICE AMOUNT:	620,000	

Shippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

Contract Balance Statement
For Accounting Period : 06/2002

SVC R. AME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Randy Bryan
CONTACT PHONE : (713) 853-0438

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $2.77
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 20094
SVC CD : Int Transport
SVC REQ K DATE : 07/26/1994

RECEIPT					DELIVERY					FUEL	IMBALANC
Beg Date End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	In Va
BEGINNING IMBALANCE													
Balance From 05/2002 Accounting													
CURRENT MONTH ACTIVITY													
05/2002	500539	wfs la maquina plant i/c	000205063	???	12,366	500534	nwpl la plata i/c delivery	000205061	???	12,335	31		
Sub(ota) Of Current Month Activity					12,366					12,335	31		
TOTAL MONTH ACTIVITY					12,366					12,335	31		
ENDING IMBALANCE													

(B)(4)
(B)(5)
(B)(7)(e)

P.02/03
281 293 5329 TO 3940
JUN 10 2002 17:30 FR CONOCO GAS MARKETING

P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

(B)(4)
Acct No. (B)(5)
Bill Pty Date (B)(7)(e)

Invoice Date:	June 03, 2002
Net Due Date:	June 13, 2002
Inv ID:	221651
Beg Tran Date	End Tran Date
May 01, 2002	May 31, 2002

Wire

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Chase Bank NA
Account (B)(4)
Routing (B)(5)
New York, NY (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27566 Svc Cd Prop: Firm Transportation Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : W. THOREAU*										
Commodity			58648/105017		- SAN JUAN POOL	104871208		- SOCAL NEEDLES	01-31						601,563	(B)(4) (B)(5) (B)(7)(e)
											ZONE SUBTOTAL				601,563	
											INVOICE AMOUNT:				601,563	

(B)(4)
(B)(5)
(B)(7)(e)

hip (s) to be funded must be indicate
Tot

Transwestern Pipeline Company / 007933047
Contract Balance Statement
Accounting Period : 06/2002

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Randy Bryan
CONTACT PHONE : (713) 853-0438

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $2.77
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 27566
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/2002

Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	FUEL Qty	IMBALANCE Qty	Imb Value
		RECEIPT				DELIVERY							
BEGINNING IMBALANCE													
Balance From 05/2002 Accounting												0	
CURRENT MONTH ACTIVITY													
05/2002	58648	san juan pool	000105017	SJA	631,546	10487	socal needles	000000208	WTH	601,563	29,983	0	
Subtotal Of Current Month Activity					631,546					601,563	29,983	0	
TOTAL MONTH ACTIVITY					631,546					601,563	29,983	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

281 293 5329 TO 3944 P.03/03

JUNE 2002

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu		Adj $
99203	(B)(4)		0		(B)(4)
99368			0		
99291	(B)(7)(e)		0		
99290			29,180	✓	(B)(7)(e)
99255			0		

*See SJ

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct (B)(4)
Bill Pty (D (B)(5)

Invoice Date:	July 01, 2002
Net Due Date:	July 11, 2002
Inv ID:	222208

Beg Tran Date	End Tran Date
June 01, 2002	June 30, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Amount (B)(4)
Routing (B)(5)
New York, NY (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

(B)(4)
(B)(5)
(B)(7)(e)

Svc Req K: 27566 Svc Cd Prop: Firm Transport (B)(7)(e)
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
ipt Zone : SAN JUAN						*Delivery Zone : W. THOREAU*										
Reservation					56498/89310 - BLOOMFIELD COMPRESS			10487/208 - SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)						(B)(4) 600,000 (B)(5) (B)(7)(e)	
														ZONE SUBTOTAL	600,000	
														INVOICE AMOUNT:	*600,000*	

ippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
ote :

Transwestern Pipeline Company

Invoice Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No.: (B)(4)
Bill Pty (Duns): (B)(5)
(B)(7)(e)

Invoice Date:	July 01, 2002
Net Due Date:	July 11, 2002
Inv ID:	222372
Beg Tran Date	End Tran Date
June 01, 2002	June 30, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Account (B)(4)
Routing (B)(5)
New York, NY (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27566 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Base	Sur.	Disc.	Unit Price Net	Qty	Amount Due
Receipt Zone : SAN JUAN						***Delivery Zone : W. THOREAU***										
Commodity					58648/105017 - SAN JUAN POOL			10487/208 - SOCAL NEEDLES		01 - 30	(B)(4) (B)(5) (B)(7)(e)				585,405	(B)(4) (B)(5) (B)(7)(e)
														ZONE SUBTOTAL	585,405	
														INVOICE AMOUNT:	*585,405*	

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 07/2002

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Randy Bryan
CONTACT PHONE : (713) 853-0438

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $2.69
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 27566
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/2002

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
Balance From 06/2002 Accounting												0	
CURRENT MONTH ACTIVITY													
06/2002	58648	san juan pool	000105017	SJA	614,585	10487	socal needles	000000208	WTH	585,405	29,180	0	
Subtotal Of Current Month Activity					614,585					585,405	29,180	0	
TOTAL MONTH ACTIVITY					614,585					585,405	29,180	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

JULY 2002

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $
	(B)(4) (B)(7)(e)		0	(B)(4)
			0	
			0	(B)(7)(e)
			30,711	
			0	

*See SJ

 DRAFT

Sell Statement #: TEMP_22179 2002-08-08 8:08 AM **Accounting Period:** Aug-2002 **Billing Period:** Jul-2002

Bill To: Aquila Dallas Marketing, L.P.
2711 North Haskell Ave, Suite 2050
Dallas, TX 75204

Remit To: Conoco Inc.
JP Morgan Chase & Company
ABA (B)(4)
Acct (B)(5)
New York, NY 10005-1401 (B)(7)(e)

Conoco Inc.
Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Tel: (214) 827-9464 **Fax:** (214) 828-2709 **Tel:** (281) 293-5838 **Fax:** (281) 293-3940

Contact: Carolyn Shipman **Contact:** Harriet E Patrick **Payment Method:** Wire

Vendor Inv #: **Vendor Inv Date:** **Terms:** NETOUT - 25th of the month

	Delivery Date Start	End	Facility	Location	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
	Delivery Period: Apr-2001			**Contract:** 15368 - term only		**Deal:**				(B)(4) (B)(5) (B)(7)(e)	
1	01-Apr	30-Apr	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu				
	Delivery Period: Apr-2001			**Contract:** 15368 - term only		**Deal:**					
2	09-Apr	09-Apr	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Commodity	7,367	MMBtu				
3	10-Apr	10-Apr		Reverse Item 73 of Stmt R04019194		-7,367	MMBtu				

(B)(4)
(B)(5)
(B)(7)(e)

Pre-tax Sub-total	
Sell Tax Sub-total	
Pre-tax Sub-total:	(B)(4) (B)(5) (B)(7)(e)
Tax Sub-total:	
Statement Total:	
Currency:	US$
Due Date:	Aug 25, 2002
Statement Date:	Aug 08, 2002

To: Brenda Will
661-4057

ENRON

Transwestern Pipeline Company

:et Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Ad (B)(4) :
Bill Pty (B)(5):
(B)(7)(e)

Invoice Date:	August 01, 2002
Net Due Date:	August 12, 2002
Inv ID:	222820
Beg Tran Date	End Tran Date
July 01, 2002	July 31, 2002

(B)(4)
(B)(5)

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Account
Routing
New York, NY

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27566 **Svc Cd Prop:** Firm Transp (B)(7)(e)
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount (B)(4)
(B)(5)
(B)(7)(e)

:' ·ge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Base	Sur.	Disc.	Net	Qty	Amount Due
·ipt Zone : SAN JUAN						Delivery Zone : W. THOREAU										
teservation					56498/89310 - BLOOMFIELD COMPRESS			10487/208 - SOCAL NEEDLES	01	31					620,000	
									(B)(4)							
(B)(5)								ZONE SUBTOTAL							620,000	
(B)(7)(e)								INVOICE AMOUNT:							620,000	

(B)(4)
(B)(5)
(B)(7)(e)

ɔpers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
te : .

Transwestern Pipeline Company

et Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No: (B)(4)
Bill Pty (B)(5): (B)(7)(e)

Invoice Date:	August 01, 2002
Net Due Date:	August 12, 2002
Inv ID:	223270
Beg Tran Date	End Tran Date
July 01, 2002	July 31, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Account
Routing
New York, NY

(B)(4)
(B)(5)
(B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27566 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

...ge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
...ipt Zone : SAN JUAN						Delivery Zone : W. THOREAU										
Commodity					58648/105017 - SAN JUAN POOL			10487/208 - SOCAL NEEDLES	(B)(4) (B)(5) (B)(7)(e)	01 - 31					616,646	(B)(4) (B)(5) (B)(7)(e)
											ZONE SUBTOTAL				616,646	
											INVOICE AMOUNT:				616,646	

...pers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate...

Transwestern Pipeline Company / 007933047
Contract Balance Statement
For Accounting Period : 08/2002

SVC REQ NAME :

CONOCO, INC.
ATTN : LISA BARRERA
600 NORTH DAIRY ASHFORD, CH1081
HOUSTON, TX 77079-6651

SVC REQ PHONE : 281-293-3919
SVC REQ (FAX) : 281-293-5329
CONTACT NAME: Randy Bryan
CONTACT PHONE : (713) 853-0438

RPT PRESS BASE : 14.73
BTU : Dry
INDEX RATE : $2.67
INDEX CALCULATION : Monthly Index Average

RECIPIENT : 008427692
RECIPIENT PROP (LE): 454
SVC REQ K : 27566
SVC CD : Firm Transportation
SVC REQ K DATE : 03/01/2002

RECEIPT					DELIVERY					FUEL	IMBALANCE	
Beg Date / End Date	Loc Prop (POI)	Location Name	Loc	Rec Zn	Qty	Loc Prop (POI)	Location Name	Loc	Del Zn	Qty	Qty	Qty	Imb Value
BEGINNING IMBALANCE													
		Balance From 07/2002 Accounting										0	
CURRENT MONTH ACTIVITY													
07/2002	58648	san juan pool	000105017	SJA	647,357	10487	socal needles	000000208	WTH	616,646	30,711	0	
		Subtotal Of Current Month Activity			647,357					616,646	30,711	0	
TOTAL MONTH ACTIVITY					647,357					616,646	30,711	0	
ENDING IMBALANCE												0	

(B)(4)
(B)(5)
(B)(7)(e)

New Mexico Federal Audit
July 2002 Production
Sales of Residue Processed at San Juan Plant

TX Channel Valero @ Aquadulce	TX Channel Aquadulce	TX Channel Formosa	TX Channel Seadrift	TX Channel
		Channel		
(B)(4)				(B)(7)(e)
				17074
				18127
				99456

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
	(B)(7)(e)	(B)(4)	200207	200207	5,757,110	5,757,110		$0.0000000	(B)(4)	$0.0000000				(B)(7)(e)
					5,757,110	5,757,110			(B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)		

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200207	200207	313,570	313,570								
			200207	200207	106,225	106,225								
			200207	200207	62,657	62,657								
			200207	200207	228,209	228,209								
			200207	200207	204,075	204,075								
			200207	200207	306,137	306,137								
			200207	200207	769	769								
			200207	200207	769	769								
			200207	200207	382,361	382,361								
			200207	200207	172,761	172,761								
			200207	200207	928	928								
			200207	200207	2,879,766	2,879,766								
			200207	200207	5,000	5,000								
(B)(7)(e)		(B)(4)	200207	200207	344,672	344,672			(B)(7)(e)					
			200207	200207	9,984	9,984								
(B)(4)		(B)(7)(e)	200207	200207	17,110	17,110			(B)(4)					
			200207	200207	4,118	4,118								
			200207	200207	4,083	4,083								
			200207	200207	0	0								
			200207	200207	0	0								
			200207	200207	0	0								
			200207	200207	445,409	445,409								
			200207	200207	0	0								
			200207	200207	268,637	268,637								
			200207	200207	523,663	523,663								
			200207	200207	0	0								
			200207	200207	11,368	11,368								
			200207	200207	1,121,879	1,121,879								
			200207	200207	1,121,805	1,121,805								
			200207	200207	428,244	428,244								
			200207	200207	229,953	229,953								
			200207	200207	490,437	490,437								
			200207	200207	490,448	490,448								
			200207	200207	268,998	268,998								
			200207	200207	245,344	245,344								

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CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200207	200207	313,570	313,570								
			200207	200207	106,225	106,225								
			200207	200207	62,657	62,657								
			200207	200207	228,209	228,209								
			200207	200207	204,075	204,075								
			200207	200207	306,137	306,137								
			200207	200207	769	769								
			200207	200207	769	769								
			200207	200207	382,351	382,351								
			200207	200207	172,761	172,761								
			200207	200207	928	928								
			200207	200207	2,879,786	2,879,786								
			200207	200207	5,000	5,000								
(B)(7)(e)		(B)(7)(e)	200207	200207	344,672	344,672								
			200207	200207	9,984	9,984								
			200207	200207	17,110	17,110			(B)(4)					
(B)(4)		(B)(4)	200207	200207	4,118	4,118								
			200207	200207	4,083	4,083								
			200207	200207	0	0								
			200207	200207	0	0								
			200207	200207	0	0								
			200207	200207	445,409	445,409								
			200207	200207	0	0								
			200207	200207	268,637	268,637								
			200207	200207	573,863	573,863								
			200207	200207	0	0								
			200207	200207	11,368	11,368								
			200207	200207	1,121,819	1,121,819								
			200207	200207	1,121,805	1,121,805								
			200207	200207	428,244	428,244								
			200207	200207	229,953	229,953								
			200207	200207	490,437	490,437								
			200207	200207	490,448	490,448								
			200207	200207	298,998	298,998								
			200207	200207	245,344	245,344								

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		17881	200207	200207	221,423	221,423								
		17881	200207	200207	68,717	68,717								
		17881	200207	200207	0	0								
		17966	200207	200207	0	0								
		17968	200207	200207	517,506	517,506								
		17968	200207	200207	144,365	144,365								
		17968	200207	200207	80,284	80,284								
		18133	200207	200207	169,853	169,853								
(B)(7)(e)		18133	200207	200207	2,129	2,129								
		18186	200207	200207	3,976	3,976								
		50394	200207	200207	154,509	154,509			(B)(4)					
(B)(4)		50394	200207	200207	21,754	21,754								
		50524	200207	200207	319,788	319,788								
		50524	200207	200207	0	0			(B)(7)(e)					
		90WE	200207	200207	21,886	0								
		90WE	200207	200207	0	0								
		9NFR	200207	200207	0	0								
		9NFR	200207	200207	46,678	0								
		9NFR	200207	200207	571	0								
		77777	200207	200207	859	859								
	(B)(7)(e)	77777	200207	200207	288,242	288,242								
		77777	200207	200207	19,973	19,973								
	(B)(4)	77777	200207	200207	1,298,331	1,298,331								
		77777	200207	200207	16,102	16,102								
		77777	200207	200207	294,552	294,552								
					14,460,627	14,391,692								

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE

Vols Used As Fuel		(B)(4)
Weight Avg Base Price		(B)(7)(e)
Transp/Fuel Value		
Transp/Fuel Adj		
Total Vols Sold + Vols Used As Fuel		
W/A Transp/Fuel Price		

Value Adjustment		(B)(7)(e)
Manual Loaded Transp Price		
Total Sales + Value Adjustment		
Weight Avg Base Price		
W/A Transp/Fuel + Manual Transp Price		
Determined Price		

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)			200207	200207	20,706	20,706	(B)(4)			(B)(7)(e)				
			200207	200207	5,000	5,000								
(B)(7)(e)			200207	200207	2,138	2,138								
					27,844	27,844								

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	200207	200207	1,380	1,380	(B)(4)							(B)(7)(e)
			200207	200207	0	0								
			200207	200207	158,122	158,122								
			200207	200207	0	0								
			200207	200207	55,148	55,148								
					214,650	214,650								

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	(B)(7)(e)
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200207	200207	1,885	1,885	(B)(4)			(B)(7)(e)				
(B)(7)(e)		(B)(7)(e)	200207	200207	292,667	292,667								
		(B)(4)			294,552	294,552								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	(B)(7)(e)
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		(B)(4)	200207	200207	15,617	15,617								
			200207	200207	0	0								
			200207	200207	245,194	245,194								
(B)(7)(e)		(B)(7)(e)	200207	200207	23,118	23,118								
			200207	200207	5,000	5,000	(B)(4)							
			200207	200207	5,000	5,000				(B)(7)(e)				
			200207	200207	5,000	5,000								
			200207	200207	87,235	87,235								
			200207	200207	0	0								
			200207	200207	2,862	2,862								
			200207	200207	6,925	6,925								
					395,951	395,951								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		(B)(4)	200207	200207	527,311	527,311								
			200207	200207	445,576	445,576	(B)(4)			(B)(7)(e)				
(B)(7)(e)		(B)(7)(e)	200207	200207	341,546	341,546								
					1,314,433	1,314,433								

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		51005	200207	200207	53,206	53,206				(B)(4)				(B)(7)(e)
					53,206	53,206								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		15586	200207	200207	10,000	10,000	(B)(4)			(B)(7)(e)				
		77777	200207	200207	422,748	422,748								
		77777	200207	200207	2,325	2,325								
	(B)(7)(e)				435,073	435,073								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		19785	200207	200207	9,671	0	(B)(4)							
		77777	200207	200207	30,000	30,000								
		77777	200207	200207	915,000	915,000								
	(B)(7)(e)				954,671	945,000								

(B)(7)(e)

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		19785	200207	200207	2,973	0	(B)(4)			(B)(7)(e)				
		77777	200207	200207	155,000	155,000								
		77777	200207	200207	310,000	310,000								
					467,973	465,000								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		15581	200207	200207	61,000	61,000								
		15586	200207	200207	3,600	3,600								
(B)(7)(e)		16873	200207	200207	155,000	155,000			(B)(4)					
		17268	200207	200207	55,000	55,000								
		17333	200207	200207	40,000	40,000			(B)(7)(e)					
		17482	200207	200207	50,000	50,000								
		50524	200207	200207	310,000	310,000								
		51131	200207	200207	112,000	112,000								
	(B)(4)	77777	200207	200207	607,742	607,742								
(B)(7)(e)					1,394,342	1,394,342								

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		16758	200207	200207	0	0	(B)(7)(e)				(B)(4)			
		17268	200207	200207	30,000	30,000								
(B)(7)(e)		17268	200207	200207	38,730	38,730								
					68,730	68,730								

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		17073	200207	200207	310,000	310,000	(B)(4)							(B)(7)(e)
		17363	200207	200207	0	0								
(B)(7)(e)					310,000	310,000								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		4394	200207	200207	0	0	(B)(4)		(B)(7)(e)					
		77777	200207	200207	877,742	877,742								
(B)(7)(e)	(B)(7)(e)				877,742	877,742								

Vols Used As Fuel	(B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		18292	200207	200207	825,817	825,817								
		4394	200207	200207	0	0	(B)(4)							
		77777	200207	200207	128,490	128,490				(B)(7)(e)				
		77777	200207	200207	236,010	236,010								
	(B)(7)(e)	77777	200207	200207	1,141,214	1,141,214								
					2,331,531	2,331,531								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		169815	200207	200207	155,000	155,000					(B)(4)			(B)(7)(e)
					155,000	155,000								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		51131	200207	200207	252,010	252,010	(B)(7)(e)			(B)(4)				
					252,010	252,010								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		17006	200207	200207	775,000	775,000								
		17006	200207	200207	369,943	369,943								
		17074	200207	200207	635,763	635,763								
		17074	200207	200207	70,000	70,000								
		18127	200207	200207	310,000	310,000								
		4394	200207	200207	0	0								
		77777	200207	200207	9,145	9,145								
					2,169,851	2,169,851								

(B)(4)

(B)(7)(e)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
October 2000 Production
Sales of Residue Processed at (B)(4) (B)(7)(e)

(B)(4)
(B)(7)(e)

	NM	TX	TX		
			(B)(4)	(B)(7)(e)	
Processed at (B)(4)	(B)(7)(e)				
	11885	99404	15979	15938	99177
	12198	99177	99404	16709	
	14206			17180	
	14304			17482	
	14622				
	15211				
	15333				
	15368				
	15477				
	15617				
	15938				
	15979				
	16758				
	16872				
	16948				
	17119				
	17217				
	17358				
	17363				
	17475				
	50272				
	50775				
	50832				
	50927				
	99481				
	99421				

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

CROSS RE

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		77777	200010	200010	0	0								
		77777	200010	200010	6,446,748	6,446,748								
					6,446,748	6,446,748								

(B)(4)

(B)(7)(e)

(B)(7)(e)

el
Weight Avg Base Price
Transp/Fuel Value
Transp/Fuel Adj
Total Vols Sold + Vols Used As Fuel
W/A Transp/Fuel Price

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

Value Adjustment
Manual Loaded Transp Price
Total Sales + Value Adjustment
Weight Avg Base Price
W/A Transp/Fuel + Manual Transp P
Determined Price

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		11885	200010	200010	174,671	174,671								
		11885	200010	200010	105,701	105,701								
		12198	200010	200010	225,572	225,572								
		12198	200010	200010	237,034	237,034								
		12198	200010	200010	166,096	166,096								
		12198	200010	200010	2,517	2,517								
		14206	200010	200010	34,843	34,843								
		14206	200010	200010	391,496	391,496								
		14206	200010	200010	170,925	170,925								
		14206	200010	200010	182,414	182,414								
		14206	200010	200010	193,792	193,792								
		14206	200010	200010	100,595	100,595								
		14206	200010	200010	100,591	100,591								
		14206	200010	200010	193,757	193,757								
		14304	200010	200010	504,676	504,676								
		14304	200010	200010	303,425	303,425								
		14622	200010	200010	835,802	835,802								
		15211	200010	200010	151,722	151,722								
		15333	200010	200010	22,101	22,101								
		15368	200010	200010	266,743	266,743								
		15477	200010	200010	102,265	102,265								
		15617	200010	200010	85,434	85,434								
		15617	200010	200010	6,988	6,988								
		15938	200010	200010	325,407	325,407								
		15938	200010	200010	30,567	30,567								
		15979	200010	200010	549,975	549,975								
		15979	200010	200010	38,131	38,131								
		16758	200010	200010	131,532	131,532								
		16872	200010	200010	4,030	4,030								
		16948	200010	200010	361,986	361,986								
		16948	200010	200010	165,416	165,416								
		16948	200010	200010	52,131	52,131								
		17119	200010	200010	25,458	25,458								
		17217	200010	200010	166,762	166,762								
		17358	200010	200010	118,030	118,030								

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

NDAM

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		17358	200010	200010	511,858	511,858								
		17363	200010	200010	265,068	265,068								
		17475	200010	200010	995,209	995,209								
		17475	200010	200010	933,853	933,853								
		50272	200010	200010	288,931	288,931								
		50272	200010	200010	16,424	16,424								
		50272	200010	200010	9,804	9,804								
		50775	200010	200010	26,860	26,860								
		50832	200010	200010	140,247	140,247								
		50832	200010	200010	244	244								
		50927	200010	200010	134,716	134,716								
	?	94051	200010	200010	39,681	0								
		94051	200010	200010	0	0								
		9DWE	200010	200010	0	0								
		77777	200010	200010	87,193	87,193								
		77777	200010	200010	11,447	11,447								

(B)(4)

(B)(4)

(B)(7)(e)

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel [illegible]	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

(B)(7)(e)

Value Adjustment

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

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CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		WH99-	200010	200010	0	0								
		77777	200010	200010	7,102	7,102								
		77777	200010	200010	4,239	4,239								
					11,341	11,341								

(B)(7)(e)

(B)(7)(e)

(B)(4)

Vols Used As Fuel	
Weight Avg Base Price	(B)(4)
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	(B)(7)(e)
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	(B)(4)
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		2006	200010	200010	0	0								
		13001	200010	200010	0	0								
		15979	200010	200010	7,907	7,907	(B)(7)(e)			(B)(4)				
		15979	200010	200010	17,781	17,781								
		NO FE	200010	200010	0	0								
		77777	200010	200010	61,424	61,424								
					87,112	87,112								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		15938	200010	200010	45,000	45,000								
		15938	200010	200010	7,500	7,500								
		15938	200010	200010	5,000	5,000								
(B)(7)(e)		16709	200010	200010	30,000	30,000			(B)(4)					(B)(7)(e)
		17180	200010	200010	5,000	5,000								
		17482	200010	200010	11,000	11,000								
		WH99-	200010	200010	0	0								
					103,500	103,500								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		2007	200010	200010	0	0								
		77777	200010	200010	65,398	65,398								
		7	200010	200010	10,000	10,000								
					75,398	75,398								

(B)(4)
(B)(7)(e)
(B)(7)(e)
(B)(4)
(B)(4)
(B)(7)(e)

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

(B)(7)(e)

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

(B)(7)(e)

New Mexico Federal Audit
November 2000 Production
Sales of Residue Processed at San Juan Plant

	NM EPNG - San Juan	TX EPNG - PG&E (PGETX TX IVALERO)	TX OASIS/EPNG WAHA	TX VALERO - VALVERDE
Processed at San Juan		**El Paso**		
		(B)(4) (B)(7)(e)		

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		77777	200011	200011	6,270,476	6,270,476								
					6,270,476	6,270,476								

(B)(4)

(B)(7)(e)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		11885	200011	200011	13,248	13,248								
		12198	200011	200011	616,287	616,287								
		12198	200011	200011	100,737	100,737								
		12198	200011	200011	3,734	3,734								
		12198	200011	200011	16,611	16,611								
		14206	200011	200011	645,377	645,377								
		14206	200011	200011	257,026	257,026								
		14206	200011	200011	5,000	5,000								
		14206	200011	200011	184,264	184,264								
		14206	200011	200011	431,601	431,601								
		14304	200011	200011	422,602	422,602								
		14622	200011	200011	412,615	412,615								
		14622	200011	200011	283,593	283,593								
		14622	200011	200011	46,484	46,484								
		15109	200011	200011	138,628	138,628								
		15368	200011	200011	392,094	392,094								
		15368	200011	200011	413,620	413,620								
		15368	200011	200011	44,425	44,425								
		15477	200011	200011	56,855	56,855								
		15617	200011	200011	176,060	176,060								
		15938	200011	200011	321,335	321,335								
		15938	200011	200011	9,573	9,573								
		15938	200011	200011	30,000	30,000								
		15938	200011	200011	24,998	24,998								
		15979	200011	200011	287,867	287,867								
		15979	200011	200011	6,458	6,458								
		16709	200011	200011	18,528	18,528								
		16709	200011	200011	28,189	28,189								
		16709	200011	200011	40,190	40,190								
		16948	200011	200011	519,715	519,715								
		16948	200011	200011	4,537	4,537								
		16948	200011	200011	82,478	82,478								
		16948	200011	200011	6,452	6,452								
		17048	200011	200011	158,685	158,685								
		17119	200011	200011	13,049	13,049								

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		17180	200011	200011	49,148	49,148								
		17217	200011	200011	4,622	4,622								
		17358	200011	200011	102,077	102,077								
		17358	200011	200011	13,367	13,367								
		17358	200011	200011	40,068	40,068								
		17475	200011	200011	884,038	884,038								
		17475	200011	200011	884,064	884,064								
		50394	200011	200011	300,184	300,184								
		50394	200011	200011	300,184	300,184								
		50394	200011	200011	300,024	300,024								
		50775	200011	200011	30,777	30,777								
		50832	200011	200011	87,443	87,443								
		50927	200011	200011	228,274	228,274								
		50927	200011	200011	115,013	115,013								
		51066	200011	200011	147,048	147,048								
		51066	200011	200011	290,480	290,480								
		51066	200011	200011	362,987	362,987								
		51263	200011	200011	26,109	26,109								
		94051	200011	200011	23,441	0								
		94051	200011	200011	0	0								
		9DWE	200011	200011	0	0								
		77777	200011	200011	0	0								
		77777	200011	200011	18,432	18,432								
		77777	200011	200011	40,313	40,313								
					10,461,008	10,437,567								

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	(B)(7)(e)
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		WH99-	200011	200011	0	0								
		77777	200011	200011	37,500	37,500								
					37,500	37,500								

(B)(7)(e)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Vols Used As Fuel		(B)(7)(e)
Weight Avg Base Price		
Transp/Fuel Value		
Transp/Fuel Adj		
Total Vols Sold + Vols Used As Fuel		
W/A Transp/Fuel Price		

Value Adjustment		(B)(4) (B)(7)(e)
Manual Loaded Transp Price		
Total Sales + Value Adjustment		
Weight Avg Base Price		
W/A Transp/Fuel + Manual Transp Price		
Determined Price		

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		15109	200011	200011	5,160	5,160								
		15979	200011	200011	12,133	12,133				(B)(4)				(B)(7)(e)
(B)(7)(e)		16709	200011	200011	1,093	1,093								
					18,386	18,386								

Vols Used As Fuel		(B)(4)
Weight Avg Base Price		
Transp/Fuel Value		
Transp/Fuel Adj		(B)(7)(e)
Total Vols Sold + Vols Used As Fuel		
W/A Transp/Fuel Price		

Value Adjustment		
Manual Loaded Transp Price		
Total Sales + Value Adjustment		
Weight Avg Base Price		
W/A Transp/Fuel + Manual Transp Price		(B)(7)(e)
Determined Price		

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		15368	200011	200011	13,750	13,750								
		15938	200011	200011	13,750	13,750								
(B)(7)(e)		17180	200011	200011	10,000	10,000				(B)(4)				(B)(7)(e)
		50503	200011	200011	100,000	100,000								
		WH99-	200011	200011	0	0								
					137,500	137,500								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

New Mexico Federal Audit
December 2000 Production
Sales of Residue Processed at (B)(4) (B)(7)(e)

Processed at (B)(4)	NM	TX
	(B)(4) (B)(7)(e)	(B)(7)(e)
(B)(7)(e)	11885	15979
	12198	
	14206	
	14304	
	14622	
	15109	
	15282	
	15368	
	15477	
	15617	
	15938	
	15979	
	16709	
	16948	
	17048	
	17180	
	17217	
	17358	
	17363	
	17475	
	17482	
	50394	
	50775	
	50927	
	51066	
	51263	
	99421	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

(B)(4)

(B)(7)(e)

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
	99368	77777	200012	200012	6,629,163	6,629,163								
	99368	77777	200012	200012	598,947	598,947								
					7,228,110	7,228,110								

(B)(4)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(7)(e) (B)(4)		11885	200012	200012	1,679	1,679	(B)(7)(e) (B)(4)							
		11885	200012	200012	74,087	74,087								
		12198	200012	200012	767,466	767,466								
		12198	200012	200012	0	0								
		12198	200012	200012	208,526	208,526								
		14206	200012	200012	948,721	948,721								
		14206	200012	200012	0	0								
		14304	200012	200012	598,051	598,051								
		14622	200012	200012	561,268	561,268								
		14622	200012	200012	260,661	260,661								
		15109	200012	200012	152,837	152,837								
		15252	200012	200012	425,166	425,166								
		15368	200012	200012	339,234	339,234								
		15368	200012	200012	235,771	235,771								
		15368	200012	200012	2,835	2,835								
		15368	200012	200012	23,613	23,613								
		15477	200012	200012	11,612	11,612								
		15477	200012	200012	10,000	10,000								
		15617	200012	200012	184,381	184,381								
		15938	200012	200012	120,000	120,000								
		15938	200012	200012	52,991	52,991								
		15938	200012	200012	120,000	120,000								
		15938	200012	200012	14,591	14,591								
		15979	200012	200012	298,962	298,962								
		15979	200012	200012	3,151	3,151								
		16709	200012	200012	27,061	27,061								
		16948	200012	200012	610,264	610,264								
		16948	200012	200012	20,594	20,594								
		16948	200012	200012	68,407	68,407								
		17048	200012	200012	29,746	29,746								
		17120	200012	200012	10,000	10,000								
		17217	200012	200012	79,355	79,355								
		17217	200012	200012	0	0								
		17217	200012	200012	0	0								
		17358	200012	200012	400,242	400,242								

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		17358	200012	200012	0	0								
		17358	200012	200012	30,672	30,672								
		17363	200012	200012	40,494	40,494								
(B)(4)		17475	200012	200012	1,080,954	1,080,954								
		17475	200012	200012	1,080,931	1,080,931								
		17482	200012	200012	3,815	3,815				(B)(4)				
(B)(7)(e)		50394	200012	200012	308,045	308,045								
		50394	200012	200012	308,042	308,042								
		50394	200012	200012	308,846	308,846				(B)(7)(e)				
		50394	200012	200012	306,039	306,039								
		50775	200012	200012	86,564	86,564								
		50927	200012	200012	296,890	296,890								
		51066	200012	200012	219,661	219,661								
		51066	200012	200012	736,747	736,747								
		51066	200012	200012	149,380	149,380								
		51068	200012	200012	0	0								
		51263	200012	200012	21,492	21,492								
		94051	200012	200012	0	0								
		94051	200012	200012	0	0								
		94051	200012	200012	24,389	0								
		94051	200012	200012	10	0								
		9DWE	200012	200012	0	0								
		77777	200012	200012	12,000	12,000								
					11,677,243	11,652,844								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		15979	200012	200012	11,038	11,038				(B)(4)				(B)(7)(e)
					11,038	11,038								

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
June 2002 Production
Sales of Coalseam Gas Processed at (B)(4) (B)(7)(e)

	NM	NM	CA
			(B)(7)(e)
Processed at Milagro	El Paso		TransWestern
	(B)(4) (B)(7)(e)		

***Bolded contracts represents transfers to another pool.

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		14622	200206	200206	0	0								
		14622	200206	200206	0	0								
		15333	200206	200206	9,159	9,159								
		15368	200206	200206	4,508	4,508								
(B)(4)		16623	200206	200206	72,500	72,500								
		16623	200206	200206	300,000	300,000			(B)(4)					
		50524	200206	200206	0	0								
(B)(7)(e)		50524	200206	200206	23,695	23,695								
	(B)(4)	77777	200206	200206	0	0			(B)(7)(e)					
		77777	200206	200206	836,767	836,767								
		77777	200206	200206	0	0								
	(B)(7)(e)	77777	200206	200206	255,106	255,106								
		77777	200206	200206	0	0								
					1,501,735	1,501,735								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPENG HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		14622	200206	200206	285,285	285,285								
		14622	200206	200206	313,724	313,724								
		15368	200206	200206	374,594	374,594								
(B)(7)(e)		15586	200206	200206	430,402	430,402								
		15836	200206	200206	289,028	289,028								
		17475	200206	200206	146,015	146,015								
		17475	200206	200206	51,942	51,942								
		18185	200206	200206	140,941	140,941								
		18186	200206	200206	3,670	3,670								
		27566	200206	200206	0	0								
		77777	200206	200206	614,585	614,585								
		77777	200206	200206	0	0								
(B)(7)(e)					2,650,186	2,650,186								

(B)(4)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		27566	200206	200206	0	0								
	(B)(4)	27566	200206	200206	29,180	0				(B)(4)				(B)(7)(e)
(B)(7)(e)		77777	200206	200206	585,405	585,405								
		77777	200206	200206	0	0								
					614,585	585,405								

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	(B)(7)(e)
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

(B)(4)

(B)(7)(e)

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		12855	200206	200206	146,416	146,416								
		12855	200206	200206	146,416	146,416								
		14206	200206	200206	274,273	274,273								
		15211	200206	200206	16,300	16,300								
					585,405	585,405								

(B)(4)

(B)(7)(e)

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

(B)(4)

(B)(7)(e)

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
July 2002 Production
Sales of Coalseam Gas Processed at Milagro Plant

		NM EPNG - San Juan		**NM** Blanco Hub	Thoreau	**CA** Pool
Processed at Milagro		**El Paso**		**TransWestern**		
	(B)(4) **(B)(7)(e)**					**(B)(4)** **(B)(7)(e)**

*****Bolded contracts represents transfers to another pool.**

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		14622	200207	200207	0	0								
		14622	200207	200207	0	0								
		15333	200207	200207	8,719	8,719								
(B)(7)(e)		15368	200207	200207	54,365	54,365				(B)(4)				
		15368	200207	200207	0	0								
	(B)(4)	77777	200207	200207	414,735	414,735								
		77777	200207	200207	1,302,041	1,302,041				(B)(7)(e)				
	(B)(7)(e)				1,777,860	1,777,860								

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		14622	200207	200207	307,308	307,308								
		14622	200207	200207	337,970	337,970								
		15368	200207	200207	341,512	341,512								
(B)(7)(e)		15586	200207	200207	435,354	435,354								
		15836	200207	200207	302,396	302,396								
		17475	200207	200207	151,164	151,164								
		18185	200207	200207	140,803	140,803								
	(B)(4)	27566	200207	200207	0	0								
		77777	200207	200207	647,357	647,357								
					2,663,864	2,663,864								

(B)(4)

(B)(7)(e)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	(B)(7)(e)
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
		27566	200207	200207	0	0								
		27566	200207	200207	30,711	0								
		77777	200207	200207	616,646	616,646								
					647,357	616,646							$0.00	

(B)(7)(e) (B)(4) (B)(4) (B)(7)(e)

(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	(B)(7)(e)
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)		12855	200207	200207	154,286	154,286								
		17482	200207	200207	154,286	154,286	(B)(7)(e)			(B)(4)				
(B)(7)(e)		18133	200207	200207	154,287	154,287								
		50775	200207	200207	153,787	153,787								
					616,646	616,646								

Vols Used As Fuel	(B)(4) (B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

Contract 12198

Gas purchase Conoco / [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

cont #12198

Tim Doherty
Coordinator
Gas Sales
Natural Gas and
Gas Products Department

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(713) 293-4148
Fax. (713) 293-6329

(B)(4)
(B)(5)
(B)(7)(e)

June 1, 1992

(B)(4)
(B)(5)
(B)(7)(e)

Re: Gas Sales and Purchase Agreement
Conoco Contract # (B)(4) (B)(5) (B)(7)(e)

Gentlemen:

Conoco Inc. (SELLER) offers to sell gas to Cook Inlet Energy Supply (BUYER) under the following general terms and conditions:

(1) Price: The price to be paid for the gas purchased and sold hereunder shall be negotiated and agreed upon for such interval of time as identified within the "Purchase and Nomination Notice". Exhibit "A", attached hereto. The price payable shall be established on a $/MMBTU basis calculated on a dry basis. Such price will be inclusive of all taxes attributable to the gas prior to its delivery at the Point(s) of Delivery. For gas sold hereunder to BUYER, BUYER is responsible for and hereby agrees to pay all applicable sales, use, and gross receipts taxes or charges arising at and/or after delivery and/or passage of title. If BUYER is entitled to purchase natural gas free from any such taxes or charges, BUYER shall promptly furnish SELLER the necessary exemption certificate(s) covering each Delivery Point(s).

(2) Quantity: BUYER will attempt to receive gas and SELLER attempt to supply gas according to nominations as set forth within the previously referenced "Purchase and Nomination Notice".

(B)(4)
(B)(5)
(B)(7)(e)

(3) **Term:** These general terms and conditions shall be effective as of June 1, 1992, and shall continue for a primary term of one year and month to month thereafter, unless terminated by either party by giving thirty (30) days prior written notice to the other.

(4) **Point(s) of Delivery and Title:** Title shall pass from SELLER to BUYER at the points of delivery. The Point(s) of Delivery will be as identified within the "Purchase and Nomination Notice".

In conjunction with BUYER's nominations, billing shall be based upon actual volumes supplied into the Point(s) of Delivery.

(5) **Transporter and Shipper:** The transporting pipeline and shipper shall be as identified within the "Purchase and Nomination Notice".

(6) Measurement, Metering, Quality, and other necessary specifications for measuring gas quantity and quality: Per transporter's most recent specifications and industry practice.

(7) SELLER warrants it has the right to sell gas and has good right and title to gas delivered to BUYER.

(8) SELLER shall attempt to sell and deliver gas to BUYER and BUYER shall attempt to purchase and receive quantities as set forth in the "Purchase and Nomination Notice". Notwithstanding, SELLER shall not be liable to BUYER for failure to deliver any specific quantity of gas and SELLER's failure to deliver the quantities requested shall not be deemed a breach of the agreement between the parties.

(9) SELLER agrees to provide BUYER prior to or about the twentieth (20th) day of the month an invoice for the total quantity of gas delivered during the preceding month at the [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

(10) BUYER agrees to make payment to SELLER by check or wire transfer within ten (10) days of receipt of invoice for all gas delivered during the preceding month at the following addresses:

Payments:

Conoco Inc.
P.O. Box 200004
Houston, TX 77216

C\12198

By Wire Transfer: Morgan Guaranty Trust Co.
New York, N.Y.
Conoco Inc., Account Number [redacted] (B)(4) (B)(5) (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Once BUYER has paid [redacted] amount, any discrepancies between invoiced quantities or prices and actual deliveries or prices will be resolved in the following manner. When the parties have successive months transactions, SELLER shall make adjustments to the following month's invoice to compensate for differences. Otherwise, SELLER shall provide BUYER with either an additional invoice or reimbursement within ten (10) days of SELLER's final computation of the differences between invoiced quantities and prices and actual deliveries and prices for the preceding month or months.

Upon receipt of such invoice from SELLER, if BUYER recognizes a quantity or price different from the invoiced amounts, remittance must be accompanied with supporting documentation that justifies making payments differing from the invoiced amount.

(11) BUYER and SELLER agree that BUYER's compliance with SELLER's credit policies and requirements shall be a condition precedent to SELLER's obligation to deliver natural gas under this Agreement. Furthermore, if the financial responsibility of BUYER becomes unsatisfactory for any reason to SELLER, satisfactory security shall be given by BUYER upon demand of SELLER. BUYER's failure to abide by the provisions of this Section shall be considered a breach hereof and in such event payment for all natural gas delivered hereunder shall be immediately due and owing and shall be paid immediately, and SELLER may, without waiving any rights or remedies it may have, withhold further deliveries until such payment or security is received.

(12) In the event the gas delivered to BUYER hereunder is supplied from SELLER's gas processing plants, the price stated in the Purchase Nomination shall be understood to include any reimbursement designated by SELLER for SELLER's cost of gathering, treating and transporting the gas prior to the delivery point. In no event will the total price paid to SELLER exceed the amount as determined in the Purchase Nomination.

(13) The obligation of BUYER to make payment hereunder for gas received and to balance the over and under deliveries to zero, if any, shall survive the termination or cancellation of this Agreement.

(14) For all gas sold hereunder, SELLER agrees to pay all transportation charges, taxes, fees and assessments attributable to the gas and any other matter arising under this Agreement prior to the Point(s) of Delivery and BUYER agrees to pay all transportation charges, taxes, fees and assessments attributable to the gas and any other matter arising under this Agreement at and after the Point(s) of Delivery.

(15) The sale of gas is subject to applicable Federal and state laws, orders, rules and regulations and to the Federal Energy Regulatory Commission rules and regulations or successor agency having jurisdiction.

(B)(4)
(B)(5)
(B)(7)(e)

(16) SELLER shall be fully responsible and liable, indemnify and hold BUYER harmless for any action prior to the Point(s) of Delivery. BUYER shall be fully responsible and liable, indemnify and hold SELLER harmless after the Point(s) of Delivery.

(17) With respect to the gas sold hereunder, SELLER shall pay all costs, taxes, fees and assessments prior to the Point(s) of Delivery and BUYER shall pay all transportation and fees, costs, taxes and assessments after the Point(s) of Delivery.

(18) SELLER's dispatching telephone number is (713) 293-1788.
SELLER's facsimile telephone number is (713) 293-5329.
BUYER's dispatching telephone number i [redacted]
BUYER's facsimile telephone number is

(B)(4)
(B)(5)
(B)(7)(e)

(19) No waiver by either BUYER or SELLER of one or more defaults by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any other or further defaults, whether of a like or different character.

(20) SELLER and BUYER shall have the mutual right to audit records of one another that pertain to the gas transaction subject to this Agreement. Said audit shall be conducted at regular business hours and limited to records not older than two (2) years from the date of request for audit.

(21) Notice for: SELLER: Conoco Inc.
P.O. Box 2197
Houston, TX 77252
Attn: Director, Gas Sales
Western Region CH-1080

BUYER:

(B)(4)
(B)(5)
(B)(7)(e)

[redacted]

(22) SELLER and BUYER agree to maintain the confidentiality of the Agreement and each of the terms and conditions hereof, and SELLER and BUYER agree not to divulge same to any third party without the express prior written consent of the other party, except to the extent required by law.

(23) In the event any governmental authority prohibits any of the transactions described in this Agreement, or otherwise conditions such transaction in a form that is unacceptable in the sole judgment of the party affected thereby, then either party hereto so affected or prohibited may immediately cancel this Agreement by giving written notice to the other of its intent to do so.

If the above general terms and conditions are acceptable, please so signify by signing and returning both copies of this Agreement. Your execution of this Agreement and a "Purchase and Nomination Notice", after review and acceptance by Conoco, shall constitute the entire Agreement of the parties. If I may be of assistance, please contact me in Houston at (713) 293-4148.

Sincerely,

T.J. Doherty
Coordinator, Gas Sales
Western Region

SELLER:

CONOCO INC.

BY: N. A. Dorchova

TITLE: Director, Gas Sales

DATE: JUN 10 1992

BUYER:

(B)(4)
(B)(5)
(B)(7)(d)

[redacted]

C\12198

Cont 1219

AMENDMENT TO THE
GAS SALES AND PURCHASE AGREEMENT
BETWEEN
CONOCO INC., SELLER
AND
COOK INLET ENERGY SUPPLY, BUYER
CONOCO CONTRACT # 12198

This Amendment is entered into this 1st day of December, 1993, between Conoco Inc. P.O. Box 2197, Houston, Texas 77252 (SELLER), and Cook Inlet Energy Supply (BUYER), collectively referred to as "the Parties".

The Parties represent as follows:

SELLER and BUYER entered into a Gas Sales and Purchase Agreement dated June 1, 1992 (Agreement) for the sale and purchase of natural gas.

SELLER and BUYER wish to amend the Gas Sales and Purchase Agreement dated June 1, 1992, as provided in the Amendment.

The Parties agree as follows:

For and in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged,

1. Section 10 of the Agreement is amended by replacing the first paragraph as follows: "BUYER agrees to make payment to SELLER the later of the 25th of the month or ten (10) days from date of invoice by wire transfer to:

   Morgan Guaranty Trust Company
   New York, N.Y.
   Account # [redacted] (B)(4)
   ABA # [redacted] (B)(5)
   Reference: Cook Inlet Energy Supply (B)(7)(c)

   for all gas delivered during the preceding month.

2. Except as expressly amended, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of the date first appearing above.

SELLER:

CONOCO INC.

BY: T. J. Doherty

T. J. Doherty

TITLE: Coordinator, Gas Sales

DATE: October 29, 1993

BUYER:

COOK INLET ENERGY SUPPLY

BY: [signature]

TITLE: Executive Vice President

DATE: November 16, 1993

Kt 12198

RECEIVED
DEC 13 1994
Gas Sales

(B)(4)
(B)(5)
(B)(7)(e)

December 7, 1994

Conoco Inc.
Attn: Director, Gas Sales
Western Region CH-1080
P.O. Box 2197
Houston, Texas 77252

RE: Gas Sales and Purchase Agreement
Conoco Contract #12198 and
Contract Dated: June 1, 1992

Sir or Madam:

gives notice to you under the Contract of
(B)(4) reorganization into
(B)(5) by virtue of the amendment and restatement of general partnership agreement effective December 31, 1994.
(B)(7)(e) The parties who constituted continue to own 100% of the LP, with the only ownership change consisting of a 10% ownership in the LP by the individual who previously managed operations on behalf of the prior managing general partner. will remain as general partners and will be joined by the new general partner, Inupiat Energy Corporation.

By operation of law, the LP succeeds to all of rights and obligations under the Contract, with no other changes to any of the terms or conditions of the Contract. All notices under the Contract should be forwarded to the LP at the following address:

(B)(4) hip
(B)(5)
(B)(7)(e)

Thank you and please feel free to call the undersigned at if you have any questions.

Very truly yours,

SF:sk
SKELLY\SF\LTR\94001LTB.DOC

12198

Jerry Rutherford
Coordinator, Leveraged Service
Accounting & Information Manag

Conoco Inc.
1000 South Pine
P.O. Box 1267
Ponca City, OK 74602
(405) 767-3750

NOVEMBER 8, 1996

~~SINCLAIR OIL CORP~~
~~PO BOX 30825~~
~~SALT LAKE CTY~~ ~~UT 84130-0825~~

EXAMPLE OF NOTIFICATION SENT OUT BY TREASURY TO CUSTOMERS CURRENTLY PAYING BY MEANS OF WIRE TRANSFER

Attn: Accounts Payable

To Whom It May Concern:

Re: Change in Remittance Address

Please be advised that effective December 1, 1996 all wire transfers to Conoco Inc should be directed as follows:

FROM: Morgan Guaranty
ABA: [redacted] (B)(4)
ACCOUNT: [redacted] (B)(5)
New York, NY (B)(7)(e)

TO: Chase Manhattan Bank
ABA: [redacted] (B)(4)
ACCOUNT: [redacted] (B)(5)
New York, NY (B)(7)(e)

If you have any questions concerning this request, please contact me at (405) 767-3750.

Your cooperation in this matter is appreciated.

Sincerely,

Jerry Rutherford
Coordinator
Leveraged Services
Accounting & Information Management

12198
30147
50288

COOK INLET
ENERGY SUPPLY

NG & GP 3/19/99 GOLD SYSTEM

ATTN: CUSTOMERS, PROVIDERS, AND TRADING PARTIES

EFFECTIVE DATE: ***January 1, 1999***

The mailbox for after-hour emergencies has changed as indicated below:

Team	Mailbox	Message Center Name/Listing
West Coast	200	CIES West Gas Control
East Coast	201	CIES East Gas Control
Mid-Continent	202	CIES Mid-Continent Gas Control
Canada/PNW	203	CIES Canada Gas Control
Power	204	CIES Power Scheduling

To access the Mailboxes, dial our main number (310) 556-8956. When you hear the message greeting, dial the extension assigned to the region that you are attempting to contact (*e.g. 200 for West Coast, 201 for East/Gulf Coast, etc.*).

Mailbox 335 will be active for general/non-scheduling related emergency messages.

All other company voicemail boxes remain unchanged. If you have any questions, please feel free to call Stephanie Lara or Angela Jones at (310) 556-8956.

Thank you for your support.

Cook Inlet Energy Supply
Administration Department

Eff. 5/97

Stacie M. Paciotti
Director, Gas & Power Marketing/Risk Management Accounting
Natural Gas & Gas Products Department
Stacie.M.Paciotti@usa.conoco.com

Conoco Inc.
P.O. Box 2197
Houston, TX 77252-2197
(281) 293-1109
Fax: (281) 293-3940

April 24, 2000

(B)(4)
(B)(5)
(B)(7)(e)

Attention: Contract Administration

Re: Change in Accounting Address for Conoco Inc., contract number 12198, dated 06/01/1992

Please be advised that Conoco's Natural Gas Accounting Department is moving from Ponca City, Oklahoma to Houston, Texas. Effective May 1, 2000 all correspondence for natural gas Billing and Accounting Matters should be changed:

From: Conoco Inc.
P.O. Box 1267
Ponca City, OK 74603

To: Conoco Inc.
Cherokee, 1081
P.O. Box 2197
Houston, TX 77252-2197
Attn: Natural Gas Accounting
Phone: 281-293-5838
Facsimile: 281-293-3940

The address for payments to Conoco Inc. remains unchanged.

If you have any questions concerning this request, please contact Harriet Patrick 281-293-5838.

Your cooperation in this matter is greatly appreciated.

NET SETTLEMENT AGREEMENT

This Agreement constitutes the understanding whereby ***CONOCO INC. ("CONOCO")*** and ***COOK INLET ENERGY SUPPLY L.L.C., ("COOK INLET")*** agree to establish a credit balance arrangement, covering payments due for natural gas purchased, sold and/or exchanged each month between the parties for the contracts listed on Exhibit "A".

Under existing separate agreements, ***CONOCO*** and ***COOK INLET*** are selling to each other various quantities of natural gas at prices stated therein and /or exchanging various quantities of natural gas with the differentials, if any, to be paid and/or received stated therein.

JW

Effective with respect to deliveries on and after ~~August~~ October 1, 2000, the effective date, it is agreed that a net settlement or net payment arrangement shall be established for the purpose of effecting payment and thereby settling our respective accounts for all such purchases, sales and exchanges. This arrangement shall be handled as follows:

1. (a) For each calendar month in which transactions occur (the transaction month), each party shall determine the sales price for the natural gas sold to the other party and the exchange differentials, if any, from such other party under the above mentioned agreements according to the respective pricing provisions contained therein, to determine the total amount owed by such other party. ~~August~~ October 2000 shall be the first transaction month. JW

   (b) The parties shall continue to issue invoices to each other in the normal course of business. Each month, at least three days prior to the "payment date", as defined in (2) below, each party shall confer by telephone and compare/confirm invoice amounts and total amounts owed by and/or to each other.

   (c) Any difference (the 'net settlement" of account balances) resulting after offsetting the total amount each party owes to the other party shall be paid by the party owing the greater amount paying such difference to the party hereto owing the lesser amount by wire transfer of immediately available funds on the "payment date". If the "payment date" falls on a Saturday, Sunday, or holiday, payment shall be made on the succeeding banking day. If the purchase, sale or exchange contract calls for payment based upon seller's best gas volume estimates, where actual volumes are not available, the estimate should be included in the net settlement amount.

   (d) In the event that any invoice or portion of an invoice covered by this Agreement cannot be timely verified and approved for payment by net settlement in the current month under this Agreement, such invoice or portion of an invoice shall not be held for payment by "net settlement" in the current month but shall be settled by net settlement, as soon as verified, by prompt payment on the net settlement "payment date". However, each party agrees to use every reasonable effort to achieve the objective of timely verification of invoices in order to permit payment of such invoices by the current month net settlement process.

2. Settlement for all contracts between the parties subject to this net settlement, "payment date" shall be the 25th day of the month following the month of deliveries, by wire transfer.

   a) For wire transfer payments to Conoco Inc.
      Chase Manhattan Bank
      New York, NY **(B)(4)**
      ABA [redacted] **(B)(5)**
      A/C # **(B)(7)(e)**

   b) For wire transfer payments to Cook Inlet Energy Supply L.L.C.
      Union Bank of California, N.A.
      Monterey Park, CA **(B)(4)**
      ABA [redacted] **(B)(5)**
      A/C # **(B)(7)(e)**

This Agreement shall terminate and replace any existing *Net Settlement Agreement* between ***CONOCO INC.*** and ***COOK INLET ENERGY SUPPLY L.L.C.***

3. This Agreement shall have the effect of amending the provisions of all existing natural gas sales, purchase, or exchange contracts between the parties that relate to the manner and method of payment (but does not affect any "financial ability" or "creditworthiness" provisions therein), except as hereinafter noted. Except as herein amended, such contracts shall remain in effect. Future natural gas purchase, sale and exchange contracts between such parties shall also be subject to this Agreement unless it is otherwise agreed in writing. The parties may agree to except a specific transaction or contract from being governed by this Agreement by a specific

provision to that effect therein. This Agreement does not apply to any financial derivative transactions between the parties, such as swaps and options, nor to MERC backed deliveries calling for settlement different from the 25th. However, it does apply to exchange for physical transactions ("EFP").

This Agreement shall continue in effect for a period of one (1) year after its effective date, and from month-to-month thereafter. Following the expiration of the primary term, any party may terminate this Agreement by giving at least thirty (30) days advance written notice to the other party. Notice may be given at the address below by a) certified U.S. mail b) telex or telegram c) signed facsimile or; d) hand delivery/courier. Termination will be on the first day of the calendar month after expiration of the notice.

Neither party shall transfer, assign, or pledge this agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld.

In the event that either party assigns or otherwise conveys the underlying natural gas purchase and/or sales contracts between the parties, this Agreement shall be binding upon the successor, heirs and assigns of each party hereto.

Executed on the date shown by the signatures of the respective parties, but effective on the date above stated.

CONOCO INC.

BY: Carla J. Johnson Date: 10/6/00

Name: Carla J. Johnson

Title: Manager, Marketing and Trading-West

Address: Natural Gas & Gas Products
600 North Dairy Ashford
Houston, TX 77079-6651

Phone: 281-293-5359
Fax: 281-293-1720

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Exhibit A

Agreement #	Party 1	Party 2	Type	Effective Dat
12198	[redacted]	(B)(4)(B)(7)(e) Conoco Inc.	Gas Sales and Puchase Agreement	6/1/92
50288	[redacted]	(B)(4)(B)(7)(e) Conoco Inc.	Gas Sales and Puchase Agreement	2/1/94

12198
50288
18133

CONOCO

Maria E. Hendrix
Commercial Support
Natural Gas & Gas Products

P. O. Box 2197, CH 1081
Houston, Texas 77252-2197
281(293-5359)

December 12, 2001

Cook Inlet Energy Supply
10100 Santa Monica Blvd.
25th Floor
Los Angeles, CA 90067

Attn: Ms Angela C. Jones

Re: Termination Letter to Gas Sales and Purchase Agreement dated February 1, 1994 and Gas Sales and Purchase Agreement dated June 1, 1992
Conoco Contracts #12198 and 50288

Dear Angela:

This will serve as Conoco Inc.'s written notice to terminate the subject Agreements effective December 1, 2001. Conoco Inc. and Cook Inlet Energy Supply have agreed to waive the thirty days cancel notice required under the Agreements. Future business will be conducted under the terms of the Base Contract for Sales and Purchase of Natural Gas dated September 1, 2001.

Attached please find a revised Exhibit A to the Net Settlement Agreement dated October 1, 2000.

If you have any questions, please do not hesitate to call me.

Sincerely,

Maria E. Hendrix
Sr. Analyst

Enclosure

EXHIBIT A to Net Settlement Agreement dated October 1, 2000. This Exhibit is effective December 1, 2001.

Agreement #	Party 1	Party 2	Type	Effective Date
18133	Cook Inlet Energy Supply	Conoco Inc.	GISB	9/1/2001

Conoco Inc.

By: Carla J. Johnson

Title: Carla J. Johnson
Manager, Marketing and Trading-West

Cook Inlet Energy Supply

By: _____

Title: _____

12198-185

COOK INLET
ENERGY SUPPLY

$US Purchase Confirmation Summary

DATE: 8/1/00

		Upstream	Downstream
PIPELINE:	EPNG97ZA - El Paso Natural Gas		
RECEIPT POINT:	Blanco 97ZA		97ZA
VOLUME (MMBTU/D):	10000		
PRICE ($US/MMBTU):	[redacted] IFGM	(B)(4) (B)(5)	
DELIVERY PERIOD:	11/1/00 - 10/31/01	(B)(7)(e)	
REFERENCE:	UP-88492		
SERVICE TYPE:	Term		

SELLER	AUTHORIZED REPRESENTATIVE
Conoco Inc. Duns # C.Johnson	

BUYER	AUTHORIZED REPRESENTATIVE
Cook Inlet Energy Supply Ryan Duncan	Ryan Duncan

COMMENTS:
#5050 MUST LEAVE NOM CY1 & CY2. Primary delivery at EP Blanco, mutual agreement to move to TW blanco.

BASE CONTRACT #

Please contact us immediately if you are not in agreement with the above terms.
Please forward the signed confirmation summary via fax to:

Cook Inlet Energy Supply

Please Note New Fax Number!

10100 SANTA MONICA BLVD., 25TH FLOOR, LOS ANGELES, CALIFORNIA 90067 (310) 556-8956 (310) 557-1176

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica	Acct [redacted]	
Suite 2525	ABA [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R10007391
Billing Period: Oct-2000
Statement Date: November 8, 2000

Due Date: November 25, 2000
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Oct-2000			**Contract:** 12198				**Deal: 12198-134**			
1	01-Oct	26-Oct	EPNG	9KMA-BLANCO-9KMA-BLANC POOL	Commodity	195,938	MMBtu	[redacted]	US$ MMBtu	[redacted]	
2	28-Oct	31-Oct			Commodity	29,634	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
Delivery Period:	Oct-2000			**Contract:** 12198				**Deal:**			
3	01-Oct	31-Oct	TW	0010487-SoCal Needles	Commodity	287,432	MMBtu		US$ MMBtu		
Delivery Period:	Oct-2000			**Contract:** 12198				**Deal:**			
4	01-Oct	31-Oct	EPNG	9KMA-BLANCO-9KMA-BLANC POOL	Commodity	237,034	MMBtu		US$ MMBtu		
Delivery Period:	Oct-2000			**Contract:** 12198				**Deal:**			
5	01-Oct	31-Oct	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	28,484	MMBtu		US$ MMBtu		
6	01-Oct	31-Oct		9GL9-WAHA-9GL9-WAHA POOL	Commodity	93,217	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
Delivery Period:	Oct-2000			**Contract:** 12198				**Deal:**			
7	03-Oct	03-Oct	EPNG	BLANCO POOL-BLANCO POOL	Commodity	5,000	MMBtu		US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
8	04-Oct	04-Oct			Commodity	8,760	MMBtu		US$ MMBtu		
9	05-Oct	05-Oct			Commodity	6,062	MMBtu		US$ MMBtu		
10	06-Oct	06-Oct			Commodity	6,166	MMBtu		US$ MMBtu		
11	07-Oct	09-Oct			Commodity	9,529	MMBtu		US$ MMBtu		
12	10-Oct	10-Oct			Commodity	6,738	MMBtu		US$ MMBtu		

003388

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica	Acct [redacted]	
Suite 2525	ABA [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R10007391
Billing Period: Oct-2000
Statement Date: **November 8, 2000**
Due Date: November 25, 2000
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period: Oct-2000				**Contract:** 12198				**Deal:** 12198-189			
13	11-Oct	11-Oct	EPNG	BLANCO POOL-BLANCO POOL	Commodity	8,841	MMBtu	[redacted]	US$ MMBtu	[redacted]	
14	12-Oct	12-Oct			Commodity	5,000	MMBtu		US$ MMBtu		
15	13-Oct	13-Oct			Commodity	5,000	MMBtu		US$ MMBtu		
16	14-Oct	16-Oct			Commodity	12,555	MMBtu		US$ MMBtu		
17	17-Oct	17-Oct			Commodity	6,288	MMBtu		US$ MMBtu		
18	18-Oct	18-Oct			Commodity	8,926	MMBtu		US$ MMBtu		
19	19-Oct	19-Oct			Commodity	3,557	MMBtu		US$ MMBtu		
20	20-Oct	20-Oct			Commodity	2,693	MMBtu		US$ MMBtu		
21	21-Oct	23-Oct			Commodity	18,684	MMBtu		US$ MMBtu		
22	24-Oct	24-Oct			Commodity	7,464	MMBtu		US$ MMBtu		
23	25-Oct	25-Oct			Commodity	2,713	MMBtu		US$ MMBtu		
24	26-Oct	26-Oct			Commodity	2,422	MMBtu		US$ MMBtu		
25	27-Oct	27-Oct			Commodity	5,039	MMBtu		US$ MMBtu		
26	28-Oct	30-Oct			Commodity	27,193	MMBtu		US$ MMBtu		
27	31-Oct	31-Oct			Commodity	7,466	MMBtu		US$ MMBtu		
Delivery Period: Oct-2000				**Contract:** 12198				**Dea**			
28	25-Oct	25-Oct	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	6,500	MMBtu	[redacted]	US$ MMBtu	[redacted]	

(B)(4)
(B)(5)
(B)(7)(e)

003389

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica	Acct [redacted] (B)(4) (B)(5) (B)(7)(e)	
Suite 2525	ABA	
Los Angeles, CA 90067	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R10007391
Billing Period: Oct-2000
Statement Date: **November 8, 2000**
Due Date: November 25, 2000
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Oct-2000			**Contract:** 12198				**Deal:** 12[redacted]			
29 26-Oct	26-Oct	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	6,776	MMBtu	[redacted]	US$ MMBtu	[redacted] (B)(4) (B)(5) (B)(7)(e)	
30 27-Oct	27-Oct			Commodity	4,796	MMBtu		US$ MMBtu		
31 28-Oct	30-Oct			Commodity	14,527	MMBtu		US$ MMBtu		
Delivery Period: Oct-2000			**Contract:** 12198				**Deal:** 12[redacted]			
32 31-Oct	31-Oct	EPNG	BLANCO POOL-BLANCO POOL	Commodity	2,517	MMBtu		US$ MMBtu		

Sale Sub-Total: [redacted]

Statement Total: US$ [redacted] (B)(4) (B)(5) (B)(7)(e)

003390

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R11007655
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Nov-2000
10100 Santa Monica	Acct (B)(4) (B)(5) (B)(7)(e)	**Statement Date:** December 8, 2000
Suite 2525	ABA	
Los Angeles, CA 90067	New York, NY 10005-1401	**Due Date:** December 25, 2000
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

Sell

Delivery Period: Nov-2000 **Contract:** 12198 **Deal:** 12198-150

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
1	01-Nov	30-Nov	TW	0010487-SoCal Needles	Commodity	278,738	MMBtu		US$ MMBtu		
Delivery Period: Nov-2000				**Contract:** 12198				**Deal:** 12			
2	01-Nov	30-Nov	EPNG	9KMA-BLANCO-9KMA-BLANC POOL	Commodity	616,287	MMBtu		US$ MMBtu		
Delivery Period: Nov-2000				**Contract:** 12198				**Deal:** 12			
3	01-Nov	01-Nov	EPNG	9GLB-BONDAD-9GLB-BOND/ POOL	Commodity	3,731	MMBtu		US$ MMBtu		
4	02-Nov	02-Nov			Commodity	3,622	MMBtu		US$ MMBtu		
5	03-Nov	03-Nov			Commodity	3,733	MMBtu		US$ MMBtu		
6	04-Nov	06-Nov			Commodity	10,722	MMBtu		US$ MMBtu		
7	07-Nov	07-Nov			Commodity	4,222	MMBtu		US$ MMBtu		
8	08-Nov	08-Nov			Commodity	0	MMBtu		US$ MMBtu		
9	09-Nov	09-Nov			Commodity	3,594	MMBtu		US$ MMBtu		
10	10-Nov	10-Nov			Commodity	4,063	MMBtu		US$ MMBtu		
11	11-Nov	13-Nov			Commodity	10,270	MMBtu		US$ MMBtu		
12	14-Nov	14-Nov			Commodity	3,734	MMBtu		US$ MMBtu		
13	15-Nov	15-Nov			Commodity	3,235	MMBtu		US$ MMBtu		
14	16-Nov	16-Nov			Commodity	3,123	MMBtu		US$ MMBtu		
15	17-Nov	17-Nov			Commodity	3,011	MMBtu		US$ MMBtu		

(B)(4) (B)(5) (B)(7)(e)

003391

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica	Acct [redacted]	
Suite 2525	ABA [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Statement Number:	R11007655
Billing Period:	Nov-2000
Statement Date:	**December 8, 2000**
Due Date:	December 25, 2000
Payment Method:	Wire
Terms:	Later of the 25th of the month or 10 days from date of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:** [redacted]			
16	18-Nov	20-Nov	EPNG	9GLB-BONDAD-9GLB-BOND/ POOL	Commodity	8,899	MMBtu		US$ MMBtu		
17	21-Nov	21-Nov			Commodity	2,668	MMBtu		US$ MMBtu		
18	22-Nov	22-Nov			Commodity	2,575	MMBtu		US$ MMBtu		
19	23-Nov	27-Nov			Commodity	18,068	MMBtu		US$ MMBtu		
20	28-Nov	28-Nov			Commodity	3,405	MMBtu		US$ MMBtu		
21	29-Nov	29-Nov			Commodity	4,066	MMBtu		US$ MMBtu		
22	30-Nov	30-Nov			Commodity	3,996	MMBtu		US$ MMBtu		
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:**			
23	03-Nov	03-Nov	Tetco	79501-STX SERVICE POINT	Commodity	5,000	MMBtu		US$ MMBtu		
24	16-Nov	16-Nov			Commodity	5,000	MMBtu		US$ MMBtu		
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:**			
25	03-Nov	03-Nov	EPNG	9GLB-BONDAD-9GLB-BOND/ POOL	Commodity	3,734	MMBtu		US$ MMBtu		
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:**			
26	09-Nov	09-Nov	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	4,540	MMBtu		US$ MMBtu		
27	10-Nov	10-Nov			Commodity	328	MMBtu		US$ MMBtu		
28	11-Nov	13-Nov			Commodity	11,743	MMBtu		US$ MMBtu		

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(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R11007655
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Nov-2000
10100 Santa Monica	[redacted]	**Statement Date:** **December 8, 2000**
Suite 2525	ABA[redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	**Due Date:** December 25, 2000
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:** [redacted]			
29	11-Nov	13-Nov	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	12,000	MMBtu		US$ MMBtu	[redacted]	
30	14-Nov	14-Nov			Commodity	[redacted]	MMBtu		US$ MMBtu		
31	23-Nov	27-Nov			Commodity	17,070	MMBtu		US$ MMBtu		
32	28-Nov	28-Nov			Commodity	5,000	MMBtu		US$ MMBtu		
33	29-Nov	29-Nov			Commodity	5,000	MMBtu		US$ MMBtu		
34	30-Nov	30-Nov			Commodity	5,000	MMBtu		US$ MMBtu		
Delivery Period:	Nov-2000			**Contract:** 12198				**Deal:**			
35	01-Nov	30-Nov	SoCal	TWPL-TWPL Needles	Commodity	113,044	MMBtu		US$ MMBtu		

(B)(4)
(B)(5)
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003393

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica (B)(4)	Acct: [redacted]	
Suite 2525 (B)(5)	ABA: [redacted]	
Los Angeles, CA 90067 (B)(7)(e)	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R11007655
Billing Period: Nov-2000
Statement Date: **December 8, 2000**
Due Date: December 25, 2000
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Nov-2000			**Contract:** 12198		(B)(4) (B)(5) (B)(7)(e)	**Deal**	[redacted]			
36	01-Nov	01-Nov	PEPL	99XX-Third Party Pool	Commodity	3,000	MMBtu	US$	MMBtu (B)(4) (B)(5) (B)(7)(e)	[redacted]
								Sale		
				Statement Total:				US$		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R12007938
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Dec-2000
10100 Santa Monica	Acct [redacted] (B)(4)	**Statement Date:** January 9, 2001
Suite 2525	ABA [redacted] (B)(5)	
Los Angeles, CA 90067	New York, NY 10005-1401 (B)(7)(e)	**Due Date:** January 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
1	01-Dec	31-Dec	TW	0010487-SoCal Needles	Commodity	300,118	MMBtu	[redacted]	US$ MMBtu	[redacted]	
Delivery Period:	Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
2	01-Dec	31-Dec	EPNG	9KMA-BLANCO-9KMA-BLANCO POOL	Commodity	767,466	MMBtu	[redacted]	US$ MMBtu	[redacted]	
Delivery Period:	Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
3	01-Dec	31-Dec	EPNG	BLANCO POOL-BLANCO POOL	Commodity	(B)(4) (B)(5) (B)(7)(e)	MMBtu	[redacted]	US$ (B)(4) (B)(5) (B)(7)(e)	[redacted]	
Delivery Period:	Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
4	01-Dec	31-Dec	SoCal	TWPL-TWPL Needles	Commodity	151,921	MMBtu	[redacted]	US$ MMBtu	[redacted]	
Delivery Period:	Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
5	01-Dec	31-Dec	EPNG	9GL9-WAHA-9GL9-WAHA POOL	Commodity	19,249	MMBtu	[redacted]	US$ MMBtu (B)(4) (B)(5) (B)(7)(e)	[redacted]	
6	01-Dec	01-Dec		BLANCO POOL-BLANCO POOL	Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
7	02-Dec	04-Dec			Commodity	0 (B)(4)	MMBtu	[redacted]	US$ MMBtu	[redacted]	
8	05-Dec	05-Dec			Commodity	0 (B)(5) (B)(7)(e)	MMBtu	[redacted]	US$ MMBtu	[redacted]	
9	06-Dec	06-Dec			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
10	07-Dec	07-Dec			Commodity	108	MMBtu	[redacted]	US$ MMBtu	[redacted]	
11	08-Dec	08-Dec			Commodity	273	MMBtu	[redacted]	US$ MMBtu	[redacted]	
12	09-Dec	11-Dec			Commodity	5,405	MMBtu	[redacted]	US$ MMBtu	[redacted]	

003395

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R12007938
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Dec-2000
10100 Santa Monica (B)(4)	Acct: [redacted]	**Statement Date:** **January 9, 2001**
Suite 2525 (B)(5)	ABA: [redacted]	
Los Angeles, CA 90067 (B)(7)(e)	New York, NY 10005-1401	**Due Date:** January 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Dec-2000			**Contract:** 12198				**Deal:** 12198-199			
13	12-Dec	12-Dec EPNG	BLANCO POOL-BLANCO POOL	Commodity	439	MMBtu	[redacted]	US$ MMBtu	[redacted] (B)(4) (B)(5) (B)(7)(e)	
14	13-Dec	13-Dec		Commodity	0	MMBtu		US$ MMBtu		
15	14-Dec	14-Dec		Commodity	0	MMBtu		US$ MMBtu		
16	15-Dec	15-Dec		Commodity	0	MMBtu		US$ MMBtu		
17	16-Dec	18-Dec		Commodity	0	MMBtu		US$ MMBtu		
18	19-Dec	19-Dec		Commodity	0	MMBtu		US$ MMBtu		
19	20-Dec	20-Dec		Commodity	626	MMBtu		US$ MMBtu		
20	21-Dec	21-Dec		Commodity	0	MMBtu		US$ MMBtu		
21	22-Dec	22-Dec		Commodity	0	MMBtu		US$ MMBtu		
22	23-Dec	26-Dec		Commodity	7,730	MMBtu		US$ MMBtu		
23	27-Dec	27-Dec		Commodity	4,030	MMBtu		US$ MMBtu		
24	28-Dec	28-Dec		Commodity	4,494	MMBtu		US$ MMBtu		
25	29-Dec	29-Dec		Commodity	5,379	MMBtu		US$ MMBtu		
26	30-Dec	31-Dec		Commodity	2,173	MMBtu		US$ MMBtu		
27	01-Dec	31-Dec	BONDAD POOL-BONDAD POOL	Commodity	177,869	MMBtu		US$ MMBtu	$1	
Delivery Period: Dec-2000			**Contract:** 12198				**Deal:**			
28	06-Dec	06-Dec EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	9,999	MMBtu		US$ MMBtu		

(B)(4) (B)(5) (B)(7)(e)

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(B)(4) (B)(5) (B)(7)(e)

003396

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R12007938
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Dec-2000
10100 Santa Monica	Acct: [redacted]	**Statement Date:** **January 9, 2001**
Suite 2525	ABA: [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	**Due Date:** January 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

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Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Dec-2000			**Contract:** 12198				**Deal:** [redacted]			
29	07-Dec	07-Dec	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	2,040	MMBtu	US$	MMBtu	[redacted]
30	28-Dec	28-Dec			Commodity	0	MMBtu	US$	MMBtu	
									Sale Sub	
				Statement Total:			US$			

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ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	(B)(4) se Manhattan Bank, N.A.	
10100 Santa Monica	(B)(5)	
Suite 2525	(B)(7)(e)	
Los Angeles, CA 90067	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R04019111
Billing Period: Apr-2001
Statement Date: May 8, 2001
Due Date: May 25, 2001
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Apr-2001			**Contract:** 12198				**Deal:**			
1	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Commodity	477,538	MMBtu		US$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 12198				**Deal:**			
2	10-Apr	10-Apr	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	667	MMBtu		US$ MMBtu		
3	28-Apr	30-Apr			Commodity	0	MMBtu		US$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 12198				**Deal:**			
4	24-Apr	24-Apr	Transco	6559-ELIZABETHTOWN DELIV PTS	Commodity	1,333	MMBtu		US$ MMBtu		
5	26-Apr	26-Apr			Commodity	1,333	MMBtu		US$ MMBtu		
6	27-Apr	27-Apr			Commodity	1,333	MMBtu		US$ MMBtu		

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ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	**Remit To:**	**Statement Number:** R05019413
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Billing Period:** May-2001
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Statement Date:** June 8, 2001
10100 Santa Monica	(B)(4) Acct [redacted]	
Suite 2525	(B)(5) ABA [redacted]	
Los Angeles, CA 90067	(B)(7)(e) New York, NY 10005-1401	**Due Date:** June 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	May-2001			**Contract:** 12198			**Deal:** [redacted]				
1	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	488,115	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	[redacted]
Delivery Period:	May-2001			**Contract:** 12198							
2	08-May	08-May	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	1,163	MMBtu		US$ MMBtu		
3	09-May	09-May			Commodity	1,500	MMBtu		US$ MMBtu		
4	10-May	10-May			Commodity	2,000	MMBtu		US$ MMBtu		
5	11-May	11-May			Commodity	3,000	MMBtu		US$ MMBtu		
6	12-May	14-May			Commodity	0	MMBtu		US$ MMBtu		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R05019413
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** May-2001
10100 Santa Monica	Acct: [redacted]	**Statement Date:** **June 8, 2001**
Suite 2525	ABA: [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	**Due Date:** June 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from date of invoice
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

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Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: May-2001			**Contract:** 12198							
7	16-May	16-May	Tetco	79501-STX SERVICE POINT Commodity	5,000	MMBtu	[redacted]	US$ MMBtu	[redacted]	
								Sale Sub		
				Statement Total:			US$			

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ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	**Remit To:**	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R06019734
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Jun-2001
10100 Santa Monica	Acct: (B)(4)	**Statement Date:** **July 11, 2001**
Suite 2525	ABA: (B)(5)	
Los Angeles, CA 90067	New York, NY 10005-1401 (B)(7)(e)	**Due Date:** July 25, 2001
mehe		**Payment Method:** Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** NETOUT - 25th of month following delivery
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jun-2001		**Contract:**	12198			**Deal: 12198-185**				
1	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	503,476	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
Delivery Period:	Jun-2001		**Contract:**	12198			**Deal:**				
2	08-Jun	08-Jun	EPNG	9H3C-BLANCO-9H3C-BLANCO POOL	Commodity	3,051	MMBtu		US$ MMBtu		
3	12-Jun	12-Jun			Commodity	5,000	MMBtu		US$ MMBtu		
4	13-Jun	13-Jun			Commodity	4,536	MMBtu		US$ MMBtu		
5	14-Jun	14-Jun			Commodity	10,000	MMBtu		US$ MMBtu		
6	15-Jun	15-Jun			Commodity	3,452	MMBtu		US$ MMBtu		
7	16-Jun	18-Jun			Commodity	20,000	MMBtu		US$ MMBtu		
8	20-Jun	20-Jun			Commodity	0	MMBtu		US$ MMBtu		
9	21-Jun	21-Jun			Commodity	9,971	MMBtu		US$ MMBtu		
10	22-Jun	22-Jun			Commodity	10,000	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
11	23-Jun	25-Jun			Commodity	15,000	MMBtu		US$ MMBtu		
12	26-Jun	26-Jun			Commodity	13,285	MMBtu		US$ MMBtu		
13	27-Jun	27-Jun			Commodity	10,000	MMBtu		US$ MMBtu		
14	28-Jun	28-Jun			Commodity	10,000	MMBtu		US$ MMBtu		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	**Statement Number:** R06019734
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	**Billing Period:** Jun-2001
10100 Santa Monica	Acct: [redacted]	**Statement Date:** **July 11, 2001**
Suite 2525	ABA: [redacted]	
Los Angeles, CA 90067	New York, NY 10005-1401	**Due Date:** July 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** NETOUT - 25th of month following delivery
Telephone: (310) 556-8956	**Telephone:** (281) 293-5838	
Fax: (310) 556-8441	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jun-2001			**Contract:** 12198				**Deal:** 12198-217			
15	29-Jun	30-Jun	EPNG	9H3C-BLANCO-9H3C-BLANC Commodity POOL	10,000	MMBtu	(B)(4) (B)(5) (B)(7)(e) [redacted]	US$ MMBtu	(B)(4) (B)(5) (B)(7)(e) [redacted]	
								Sale Su	[redacted]	
				Statement Total:			US$			

Level 5 Rows 9/ 9

Sales Contracts

(B)(4)			(B)(4)
(B)(5)			(B)(5)
(B)(7)(e)			(B)(7)(e)
	(B)(4)		
	(B)(5)		
	(B)(7)(e)		

Level 5 Rows 7/ 7

Sales Contracts

(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)

Level 5 Rows 6/ 6

Sales Contracts

(B)(4)	(B)(4)	(B)(4)
(B)(5)	(B)(5)	(B)(5)
(B)(7)(e)	(B)(7)(e)	(B)(7)(e)

Level 5 Rows 5/ 5

Sales Contracts

(B)(4)

(B)(7)(e)

(B)(4)

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Oct 2000

Sales Contracts

(B)(4)
(B)(7)(e)

(B)(4)
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918 661 4057 P.02/09 GLOBAL FINANCIAL SVCS

Sales Contracts

(B)(4)
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(B)(4)
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918 661 4057 P.03/09 ULUBHL FINANCIAL SVCS

Level 5 Rows 5/ 5

Sales Contracts

(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

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Level 5 Rows 5/ 5

— Sales Contracts

	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

918 661 4057 P.05/09 GLOBAL FINANCIAL SVCS

Level 5 Rows 5/ 5

Sales Contracts

	(B)(4)		(B)(4)
	(B)(7)(e)		(B)(7)(e)

918 661 4057 P.07/09 GLOBAL FINANCIAL SVCS

Level 5 Rows 5/ 5

Sales Contracts

	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

518 661 4057 P.08/09

Level 5 Rows 6/ 6

Sales Contracts

	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Level 5 Rows 9/ 9

Sales Contracts

(B)(4)
(B)(7)(e)

(B)(4)
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ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	**Statement Number:** R11007777
400 N 5th Street	Chase Manhattan Bank, N.A.	**Billing Period:** Nov-2000
Station 9842 (B)(4)	Acct: [redacted]	**Statement Date:** December 12, 2000
Phoenix, AZ 85004 (B)(5)	ABA: [redacted]	
(B)(7)(e)	New York, NY 10005-1401	**Due Date:** December 27, 2000
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** 15 days from receipt of invoice
Telephone: (602) 250-3914	**Telephone:** (281) 293-5838	
Fax: (602) 250-3595	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Nov-2000			**Contract:** 16948 - GISB				**Deal:** 16948-14			
1	01-Nov	30-Nov	EPNG	97FQ-BLANCO-97FQ-BLANC POOL	Commodity	519,715	MMBtu	[redacted]	US$ MMBtu	[redacted]	
2	08-Nov	30-Nov		Buy/Sell-Buy/Sell	Commodity	23 (B)(4) (B)(5) (B)(7)(e)	MMBtu		US$ MMBtu		
Delivery Period:	Nov-2000			**Contract:** 16948 - GISB				**Deal:**			
3	07-Nov	07-Nov	EPNG	9GLB-BONDAD-9GLB-BOND/ POOL	Commodity	4,537	MMBtu		US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
Delivery Period:	Nov-2000			**Contract:** 16948 - GISB				**Deal:**			
4	10-Nov	10-Nov	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	8,922	MMBtu		US$ MMBtu		
5	11-Nov	13-Nov			Commodity	22,417	MMBtu		US$ MMBtu		
6	14-Nov	14-Nov			Commodity	7,496	MMBtu		US$ MMBtu		
7	15-Nov	15-Nov			Commodity	6,900	MMBtu		US$ MMBtu		
8	16-Nov	16-Nov			Commodity	6,642	MMBtu		US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	
9	17-Nov	17-Nov			Commodity	2,265	MMBtu		US$ MMBtu		
10	18-Nov	20-Nov			Commodity	20,168	MMBtu		US$ MMBtu		
11	28-Nov	28-Nov			Commodity	7,668	MMBtu		US$ MMBtu		

003425

ConocoPhillips Company

Attn: Gas Marketing Accounting
P O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	**Statement Number:** R11007777
400 N 5th Street	Chase Manhattan Bank, N.A.	**Billing Period:** Nov-2000
Station 9842	Acct:	**Statement Date:** **December 12, 2000**
Phoenix, AZ 85004	ABA:	
	New York, NY 10005-1401	**Due Date:** December 27, 2000
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** 15 days from receipt of invoice
Telephone: (602) 250-3914	**Telephone:** (281) 293-5838	
Fax: (602) 250-3595	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Nov-2000			**Contract:** 16948 - GISB							
12	13-Nov	13-Nov	EPNG	9H3C-BLANCO-9H3C-BLANC POOL Commodity	6,452	MMBtu	US$	MMBtu		
				Statement Total:			US$			

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

003426

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	
400 N 5th Street	Chase Manhattan Bank, N.A.	
Station 9842	Acct: (B)(4)	
Phoenix, AZ 85004	ABA: (B)(5)	
	New York, NY 10005-1401 (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (602) 250-3914	Telephone: (281) 293-5838	
Fax: (602) 250-3595	Fax: (281) 293-3940	

Statement Number:	R12007909
Billing Period:	Dec-2000
Statement Date:	January 9, 2001
Due Date:	January 24, 2001
Payment Method:	Wire
Terms:	15 days from receipt of invoice

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Dec-2000			**Contract:** 16948 - GISB			**Deal:** 1				
1	01-Dec	31-Dec	EPNG	97FQ-BLANCO-97FQ-BLANC POOL	Commodity	610,264	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
2	01-Dec	01-Dec		Buy/Sell-Buy/Sell	Commodity	10,000	MMBtu		US$ MMBtu		
3	05-Dec	31-Dec			Commodity	270,000	MMBtu		US$ MMBtu		
Delivery Period:	Dec-2000			**Contract:** 16948 - GISB			**Deal:** 1				
4	06-Dec	06-Dec	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	7,340	MMBtu		US$ MMBtu		
5	09-Dec	11-Dec			Commodity	13,254	MMBtu		US$ MMBtu		
Delivery Period:	Dec-2000			**Contract:** 16948 - GISB			**Deal:** 1				
6	19-Dec	19-Dec	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	8,682	MMBtu		US$ MMBtu		
7	20-Dec	20-Dec			Commodity	8,466	MMBtu		US$ MMBtu		
8	22-Dec	22-Dec			Commodity	8,101	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
9	23-Dec	26-Dec			Commodity	36,217	MMBtu		US$ MMBtu		

(B)(4) (B)(5) (B)(7)(e)

003427

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	
400 N 5th Street	Chase Manhattan Bank, N.A.	
Station 9842	Acct: (B)(4) (B)(5) (B)(7)(e)	
Phoenix, AZ 85004	ABA:	
	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (602) 250-3914	Telephone: (281) 293-5838	
Fax: (602) 250-3595	Fax: (281) 293-3940	

Statement Number:	R12007909
Billing Period:	Dec-2000
Statement Date:	**January 9, 2001**
Due Date:	January 24, 2001
Payment Method:	Wire
Terms:	15 days from receipt of invoice

Sell

Delivery Period: Dec-2000 **Contract:** 16948 - GISB **Deal:** (B)(4) (B)(5) (B)(7)(e)

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
10	27-Dec	27-Dec	EPNG	9H3C-BLANCO-9H3C-BLANC POOL Commodity	7,941	MMBtu		US$ MMBtu		
								Sale Sub-Tot	(B)(4) (B)(5) (B)(7)(e)	
				Statement Total:				US$		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	**Statement Number:** R050213318
400 N 5th St, Station 9842	JP Morgan Chase & Company	**Billing Period:** May-2002
Phoenix, AZ 85004	ABA # [redacted]	**Statement Date:** June 10, 2002
	Acct # [redacted]	
	New York, NY 10005-1401	**Due Date:** June 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** NETOUT - 25th of month following delivery
Telephone: (602) 250-3914	**Telephone:** (281) 293-5838	
Fax: (602) 250-4212	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Sell

Delivery Period: May-2002 **Contract:** 16948 - GISB **Deal:** 16948-14

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
1	01-May	31-May	EPNG	97FQ-BLANCO-97FQ-BLANC POOL	Commodity	698,182	MMBtu	[redacted]	US$ MMBtu	[redacted]	
Delivery Period: May-2002				**Contract:** 16948 - GISB				**Deal:**			
2	01-May	01-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
3	02-May	02-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
4	03-May	03-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
5	04-May	06-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
6	07-May	07-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
7	08-May	09-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
8	10-May	10-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
9	11-May	13-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
10	14-May	14-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
11	15-May	15-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
12	16-May	16-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
13	17-May	17-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
14	18-May	20-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
15	21-May	21-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
16	22-May	22-May			Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	

(B)(4)
(B)(5)
(B)(7)(e)

003429

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	
400 N 5th St, Station 9842	JP Morgan Chase & Company	
Phoenix, AZ 85004	ABA : [redacted]	
	Acct : [redacted]	
	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (602) 250-3914	Telephone: (281) 293-5838	
Fax: (602) 250-4212	Fax: (281) 293-3940	

Statement Number:	R050213318
Billing Period:	May-2002
Statement Date:	**June 10, 2002**
Due Date:	June 25, 2002
Payment Method:	Wire
Terms:	NETOUT - 25th of month following delivery

Sell

Delivery Period: May-2002 **Contract:** 16948 - GISB **Deal:** 16948-59

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
33	15-May	15-May	EPNG	BONDAD POOL-BONDAD POOL	Commodity	0	MMBtu	[redacted]	US$ MMBtu	[redacted]	
34	16-May	16-May			Commodity	0	MMBtu		US$ MMBtu		
35	17-May	17-May			Commodity	0	MMBtu		US$ MMBtu		
36	18-May	20-May			Commodity	0	MMBtu		US$ MMBtu		
37	21-May	21-May			Commodity	0	MMBtu		US$ MMBtu		
38	22-May	22-May			Commodity	0	MMBtu		US$ MMBtu		
39	23-May	23-May			Commodity	0	MMBtu		US$ MMBtu		
40	24-May	24-May			Commodity	0	MMBtu		US$ MMBtu		
41	25-May	28-May			Commodity	0	MMBtu		US$ MMBtu		
42	29-May	29-May			Commodity	0	MMBtu		US$ MMBtu		
43	30-May	30-May			Commodity	0	MMBtu		US$ MMBtu		
44	31-May	31-May			Commodity	0	MMBtu		US$ MMBtu		

(B)(4) (B)(5) (B)(7)(e)

Delivery Period: May-2002 **Contract:** 16948 - GISB **Deal:**

45	04-May	06-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	26,108	MMBtu		US$ MMBtu		
46	14-May	14-May			Commodity	7,821	MMBtu		US$ MMBtu		
47	20-May	20-May			Commodity	21,041	MMBtu		US$ MMBtu		
48	21-May	21-May			Commodity	19,264	MMBtu		US$ MMBtu		

(B)(4) (B)(5) (B)(7)(e)

003431

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	**Statement Number:** R050213318
400 N 5th St, Station 9842	JP Morgan Chase & Company	**Billing Period:** May-2002
Phoenix, AZ 85004	ABA # (B)(4)	**Statement Date:** **June 10, 2002**
	Acct # (B)(5)	
	New York, NY 10005-1401 (B)(7)(e)	**Due Date:** June 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** NETOUT - 25th of month following delivery
Telephone: (602) 250-3914	**Telephone:** (281) 293-5838	
Fax: (602) 250-4212	**Fax:** (281) 293-3940	

Sell

Delivery Period: May-2002 **Contract:** 16948 - GISB **Deal:** 16948-63

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
49	22-May	22-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	3,983	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$ MMBtu		
50	28-May	28-May			Commodity	13,092	MMBtu		US$ MMBtu		
51	29-May	29-May			Commodity	6,714	MMBtu		US$ MMBtu		
52	30-May	30-May			Commodity	8,252	MMBtu		US$ MMBtu		
53	31-May	31-May			Commodity	23,407	MMBtu		US$ MMBtu		

Sale Sub-

Statement Total: US$

003432

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R050213823
Mail Location24E1	Bank One	**Billing Period:** Jun-2002
P. O. Box 513249	(B)(4) ABA #	**Statement Date:** July 10, 2002
Los Angeles, CA 90051-1249	(B)(5) Acct #	
	(B)(7)(e) Chicago, IL 60670	**Due Date:** July 31, 2002
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** NETOUT - Last day of month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jun-2002		**Contract:**	17475 - GISB				**Deal:** 17475-27			
1	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,135,266	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	17475 - GISB				**Deal:** 174			
2	01-Jun	30-Jun	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	14,999	MMBtu		US$ MMBtu		
3	01-Jun	30-Jun	TW	0058646-West Texas Pool	Commodity	0	MMBtu		US$ MMBtu		
4	01-Jun	30-Jun		0058648-San Juan Pool	Commodity	146,015	MMBtu		US$ MMBtu		
5	01-Jun	30-Jun		0058649-Central Pool	Commodity	1,034,955	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	17475 - GISB				**Deal:** 174			
6	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,135,267	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	17475 - GISB				**Deal:** 174			
7	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,094,394	MMBtu		US$ MMBtu		
8	01-Jun	30-Jun	TW	0058648-San Juan Pool	Commodity	51,942	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	17475 - GISB				**Deal:** 174			
9	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	568,317	MMBtu		US$ MMBtu		

(B)(4)
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(B)(7)(e)

003433

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	
Mail Location24E1	Bank One	
P. O. Box 513249	ABA # (B)(4)	
Los Angeles, CA 90051-1249	Acct # (B)(5)	
	Chicago, IL 60670 (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (213) 244-3915	Telephone: (281) 293-5838	
Fax: (213) 244-8285	Fax: (281) 293-3940	

Statement Number:	R050213823
Billing Period:	Jun-2002
Statement Date:	**July 10, 2002**
Due Date:	July 31, 2002
Payment Method:	ACH
Terms:	NETOUT - Last day of month

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jun-2002			**Contract:** 17475 - GISB		(B)(4) (B)(5) (B)(7)(e)	**Deal:** 17475-62				
10	12-Jun	12-Jun	TW	0058649-Central Pool	Commodity	5,000	MMBtu	US$	MMBtu (B)(4) (B)(5) (B)(7)(e)	
									Sale Sub-To	
				Statement Total:			US$			

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R070214221
Mail Location24E1	Bank One	**Billing Period:** Jul-2002
P. O. Box 513249 (B)(4)	ABA # [redacted]	**Statement Date:** August 8, 2002
Los Angeles, CA 90051-1249 (B)(5)	Acct # [redacted]	
(B)(7)(e)	Chicago, IL 60670	**Due Date:** August 31, 2002
		Payment Method: ACH
Contact: Colleen Rakiewicz	**Contact:** Harriet E Patrick	**Terms:** NETOUT - Last day of month
Telephone: (213) 244-3564	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB				**Deal:** 17475-27			
1	01-Jul	31-Jul	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,121,805	MMBtu	[redacted]	US$	MMBtu [redacted]	
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB				(B)(4) (B)(5) (B)(7)(e) **Deal:** [redacted]		(B)(4) (B)(5) (B)(7)(e)	
2	01-Jul	31-Jul	TW	0058646-West Texas Pool	Commodity	0	MMBtu		US$	MMBtu	
3	01-Jul	31-Jul		0058648-San Juan Pool	Commodity	151,164	MMBtu		US$	MMBtu	
4	01-Jul	31-Jul		0058649-Central Pool	Commodity	1,078,039	MMBtu		US$	MMBtu	
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB				**Deal:** [redacted]			
5	01-Jul	31-Jul	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,121,819	MMBtu		US$	MMBtu	
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB				**Deal:** [redacted]			
6	01-Jul	31-Jul	EPNG	BLANCO POOL-BLANCO POOL	Commodity	428,244	MMBtu		US$	MMBtu	
7	01-Jul	31-Jul	WFS	KUTZGC-KUTZGC-PNM	Commodity	25,510	MMBtu	(B)(4)	US$	MMBtu	
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB				(B)(5) **Deal:** [redacted] (B)(7)(e)			
8	01-Jul	31-Jul	EPNG	BONDAD POOL-BONDAD POOL	Commodity***	229,953	MMBtu		US$	MMBtu (B)(4)	
9	01-Jul	31-Jul	TW	0058649-Central Pool	Commodity	400,414	MMBtu		US$	MMBtu (B)(5) (B)(7)(e)	

003435

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	
Mail Location24E1	Bank One	
P. O. Box 513249	ABA # (B)(4) (B)(5)	
Los Angeles, CA 90051-1249	Acct # (B)(7)(e)	
	Chicago, IL 60670	
Contact: Colleen Rakiewicz	Contact: Harriet E Patrick	
Telephone: (213) 244-3564	Telephone: (281) 293-5838	
Fax: (213) 244-8285	Fax: (281) 293-3940	

Statement Number: R070214221
Billing Period: Jul-2002
Statement Date: **August 8, 2002**

Due Date: August 31, 2002
Payment Method: ACH
Terms: NETOUT - Last day of month

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jul-2002			**Contract:** 17475 - GISB			(B)(4) (B)(5) (B)(7)(e)	Bbal			
10	10-Jul	10-Jul	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	7,500	MMBtu	US$	MMBtu		
									Sale Sub	(B)(4) (B)(5) (B)(7)(e)	
				Statement Total:			US$				

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R04019338
Mail Location24E1	First National Bank - Chicago	**Billing Period:** Apr-2001
P. O. Box 513249	Acct: [redacted]	**Statement Date:** May 24, 2001
Los Angeles, CA 90051-1249	ABA: [redacted]	
	Chicago, IL 60690-0261	**Due Date:** May 30, 2001
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** 30th of the month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

(B)(4)
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(B)(7)(e)

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Apr-2001			**Contract:** 17475 - GISB				**Deal:** 17475-17			
1	01-Apr	30-Apr	TW	0058649-Central Pool	Reverse Item 3 of Stmt R04019174	-235,581	MMBtu	[redacted]	$ MMBtu	[redacted]	
2	01-Apr	30-Apr			Commodity	232,108	MMBtu		$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 17475 - GISB				**Deal:** 174			
3	01-Apr	30-Apr	TW	0058649-Central Pool	Reverse Item 4 of Stmt R04019174	-722,660	MMBtu		$ MMBtu		
4	01-Apr	30-Apr			Commodity	801,607	MMBtu		$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 17475 - GISB				**Deal:** 174			
5	01-Apr	30-Apr	TW	0058649-Central Pool	Reverse Item 5 of Stmt R04019174	-75,474	MMBtu		$ MMBtu		
6	01-Apr	30-Apr			Commodity	0	MMBtu		$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 17475 - GISB				**Deal:** 174			
7	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Reverse Item 6 of Stmt R04019174	-1,241,101	MMBtu		$ MMBtu		
8	01-Apr	30-Apr			Commodity	1,178,629	MMBtu		$ MMBtu		
9	01-Apr	04-Apr	TW	0058648-San Juan Pool	Commodity	98,861	MMBtu		$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 17475 - GISB				**Deal:** 174			
10	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Reverse Item 8 of Stmt R04019174	-1,178,629	MMBtu		$ MMBtu		
11	01-Apr	30-Apr			Commodity	1,241,101	MMBtu		$ MMBtu		
12	02-Apr	02-Apr	TW	0058648-San Juan Pool	Reverse Item 9 of Stmt R04019174	-49,437	MMBtu		$ MMBtu		
13	02-Apr	02-Apr			Commodity	8,551	MMBtu		$ MMBtu		
14	02-Apr	02-Apr			Reverse Item 10 of Stmt R04019174	-9,113	MMBtu		$ MMBtu		

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(B)(7)(e)

003437

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R04019338
Mail Location24E1	First National Bank - Chicago	**Billing Period:** Apr-2001
P. O. Box 513249 (B)(4)	Acct: [redacted] (B)(5)	**Statement Date:** **May 24, 2001**
Los Angeles, CA 90051-1249 (B)(7)(e)	ABA [redacted]	
	Chicago, IL 60690-0261	**Due Date:** May 30, 2001
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** 30th of the month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Apr-2001			**Contract:** 17475 - GISB				**Deal:** [redacted]			
15 03-Apr	03-Apr	TW	0058648-San Juan Pool	Reverse Item 11 of Stmt R04019174	-46,483 (B)(4) (B)(5) (B)(7)(e)	MMBtu		US$ MMBtu	(B)(4) (B)(5) (B)(7)(e) [redacted]	
16 03-Apr	03-Apr			Reverse Item 12 of Stmt R04019174	-2,377	MMBtu		US$ MMBtu		
								Sale Sub-T		
				Statement Total:				US$		

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R05019484
Mail Location24E1 (B)(4)	First National Bank - Chicago	**Billing Period:** May-2001
P. O. Box 513249 (B)(5)	Acct	**Statement Date:** June 8, 2001
Los Angeles, CA 90051-1249 (B)(7)(e)	ABA	
	Chicago, IL 60690-0261	**Due Date:** June 29, 2001
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** 30th of the month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period: May-2001				**Contract:** 17475 - GISB				**Deal:** 17475-1			
1	15-May	16-May	EPNG	IOASISWA 14292-TO OASIS WAHA (02-710-01)	Commodity	0	MMBtu		$ MMBtu		
2	11-May	11-May		KEYSTONE POOL-KEYSTONE POOL	Commodity	20,000	MMBtu		$ MMBtu		
3	15-May	22-May			Commodity	70,649	MMBtu		$ MMBtu		
4	15-May	16-May	Oasis	6301-Oasis/TW Waha	Commodity	1,895	MMBtu		$ MMBtu		
5	01-May	31-May	TW	0058649-Central Pool	Commodity	631,323	MMBtu		$ MMBtu		
Delivery Period: May-2001				**Contract:** 17475 - GISB				**Deal:** 17			
6	15-May	16-May	Oasis	6301-Oasis/TW Waha	Commodity	1,894	MMBtu		$ MMBtu		
7	01-May	31-May	TW	0058649-Central Pool	Commodity	265,497	MMBtu		$ MMBtu		
Delivery Period: May-2001				**Contract:** 17475 - GISB				**Deal:** 17			
8	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,142,539	MMBtu		$ MMBtu		
Delivery Period: May-2001				**Contract:** 17475 - GISB				**Deal:** 17			
9	01-May	31-May	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	0	MMBtu		$ MMBtu		

(B)(4)
(B)(5)
(B)(7)(e)

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	Statement Number: R05019484
Mail Location24E1	First National Bank - Chicago	Billing Period: May-2001
P. O. Box 513249	Acct (B)(4)	Statement Date: **June 8, 2001**
Los Angeles, CA 90051-1249	ABA (B)(5)	
	Chicago, IL 60690-0261 (B)(7)(e)	Due Date: June 29, 2001
		Payment Method: ACH
Contact:	Contact: Harriet E Patrick	Terms: 30th of the month
Telephone: (213) 244-3915	Telephone: (281) 293-5838	
Fax: (213) 244-8285	Fax: (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: May-2001		**Contract:** 17475 - GISB				**Deal:** 17475-4				
10 01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,142,542	MMBtu (B)(4) (B)(5) (B)(7)(e)	US$	MMBtu	(B)(4) (B)(5) (B)(7)(e)	
								Sale Sub-T		
				Statement Total:		US$				

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R06019825
Mail Location24E1 (B)(4)	First National Bank - Chicago	**Billing Period:** Jun-2001
P. O. Box 513249 (B)(5)	Acct:	**Statement Date:** **July 11, 2001**
Los Angeles, CA 90051-1249 (B)(7)(e)	ABA:	
	Chicago, IL 60690-0261	**Due Date:** July 30, 2001
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** 30th of the month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:**			
1	01-Jun	30-Jun	TW	0058646-West Texas Pool	Commodity	31,273	MMBtu		US$ MMBtu		
2	01-Jun	30-Jun		0058649-Central Pool	Commodity	538,857	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:** (B)(4) (B)(5) (B)(7)(e)			
3	09-Jun	11-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	10,333	MMBtu		US$ MMBtu (B)(4) (B)(5) (B)(7)(e)		
4	23-Jun	25-Jun			Commodity	9,649	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:**			
5	04-Jun	04-Jun	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	7,500	MMBtu		US$ MMBtu		
6	01-Jun	30-Jun	TW	0058649-Central Pool	Commodity	712,655	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:**			
7	04-Jun	04-Jun	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	7,500	MMBtu		US$ MMBtu		
8	01-Jun	30-Jun	TW	0058649-Central Pool	Commodity	285,068	MMBtu (B)(4) (B)(5) (B)(7)(e)		US$ MMBtu (B)(4) (B)(5) (B)(7)(e)		
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:**			
9	01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,050,838	MMBtu		US$ MMBtu		
Delivery Period:	Jun-2001			**Contract:** 17475 - GISB				**Deal:**			
10	01-Jun	30-Jun	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Commodity	0	MMBtu		US$ MMBtu		

17,782
✓ Pool

003443

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	**Statement Number:** R06019825
Mail Location24E1	First National Bank - Chicago	**Billing Period:** Jun-2001
P. O. Box 513249 (B)(4)	Acct [redacted]	**Statement Date:** **July 11, 2001**
Los Angeles, CA 90051-1249 (B)(5)	ABA [redacted]	
(B)(7)(e)	Chicago, IL 60690-0261	**Due Date:** July 30, 2001
		Payment Method: ACH
Contact:	**Contact:** Harriet E Patrick	**Terms:** 30th of the month
Telephone: (213) 244-3915	**Telephone:** (281) 293-5838	
Fax: (213) 244-8285	**Fax:** (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jun-2001			**Contract:** 17475 - GISB			**Deal** [redacted]				
11 01-Jun	30-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	1,050,848	MMBtu (B)(4) (B)(5) (B)(7)(e)	US$	MMBtu (B)(4) (B)(5) (B)(7)(e)	[redacted]	
								Sale Sub-		
				Statement Total:			US$			

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Southern California Gas Company	ConocoPhillips Company	Statement Number: R08019926
Mail Location24E1	First National Bank - Chicago (B)(4)	Billing Period: Jun-2001
P. O. Box 513249	Acc (B)(5)	Statement Date: July 26, 2001
Los Angeles, CA 90051-1249	ABA (B)(7)(e)	
	Chicago, IL 60690-0261	Due Date: July 30, 2001
		Payment Method: ACH
Contact:	Contact: Harriet E Patrick	Terms: 30th of the month
Telephone: (213) 244-3915	Telephone: (281) 293-5838	
Fax: (213) 244-8285	Fax: (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
ell										
elivery Period:		Jun-2001	Contract: 17475 - GISB				Deal: 17475-3			
04-Jun	04-Jun	EPNG	IOASISWA 14292-TO OASIS WAHA (02-710-01)	Commodity	15,000	MMBtu		US$	MMBtu	
elivery Period:		Jun-2001	Contract: 17475 - GISB				Deal: 1747			
01-Jun	30-Jun	EPNG	97FP-KEYSTONE-97FP-KEYS POOL	Reverse Item 10 of Stmt R08019825	0	MMB	(B)(4) (B)(5) (B)(7)(e)	US$	MMBtu	
04-Jun	04-Jun			Commodity	0	MMBtu		US$	MMBtu	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

June 2001

Sales Contracts

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Level 5 Rows 12/ 12

Sales Contracts

(B)(4)

(B)(5) (B)(7)(e)

(B)(4)

(B)(7)(e)

Level 5 Rows 6/ 6

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 12/ 12

Sale Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 18/ 18

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 5/ 5

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 30/ 30

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 7/ 7

Sales Contracts

(B)(4)
(B)(5)
(B)(7)(e)

Level 5 Rows 5/ 5

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 7/ 7

Sales Contracts

(B)(5)

(B)(4)
(B)(7)(e)

Level 5 * Rows 7/ 7

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

Level 5 Rows 24/ 24

Sales Contracts

(B)(4)

(B)(5)

(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Level 5 Rows 12/ 12

Sales Contracts

(B)(4)
(B)(5)
(B)(7)(e)

Contract 14622

Gas purchase contract between Conoco & Energy Source Inc.

14622

BASE CONTRACT FOR SALE AND PURCHASE OF NATURAL GAS

THIS BASE CONTRACT, made and entered into this first day of July, 1995, by and between **CONOCO INC.** (CONOCO) a Delaware corporation with offices located at Houston, Texas, and **ENERGY SOURCE, INC.** (ESI) with offices located in Houston, Texas.

ARTICLE I PURPOSE AND PROCEDURES

1.1 This Base Contract establishes the terms governing purchases, sales and/or exchanges of Gas during the period this Base Contract is in effect. The Base Contract anticipates that the role of a party may change from time to time and that role may in some cases be that of the Seller and in other cases be that of the Buyer. As used herein, the term "Buyer" refers to the party receiving Gas and the term "Seller" refers to the party delivering Gas.

1.2 The terms and conditions incorporated in this Base Contract are intended to facilitate the entering into by Buyer and Seller of a variety of types of transactions with specific pertinent terms and durations. The types of transactions c overed by this Base Contract are defined in Section 3.1:

(i) Interruptible (I)
(ii) Priority Interruptible (PI)
(iii) Secondary Firm (SF)
(iv) Primary Firm (PF) or
(v) Exchange For Physicals (EFP)

1.3.1 The parties will use the following Transaction Confirmation procedure. Should the parties come to an agreement regarding a Gas purchase or sale transaction for a particular Delivery Period, Seller will, and Buyer may, record that agreement on a Transaction Confirmation and communicate such Transaction Confirmation to the other party by the close of the Business Day following the date of agreement.

1.3.2 If a sending party's Transaction Confirmation is contrary to the receiving party's understanding of the agreement, such receiving party shall notify via telecopy the sending party before the close of the second Business Day following receipt if such receiving party has not previously sent a Transaction Confirmation to the sending party. The Buyer's failure to so notify Seller in writing within the aforementioned time period constitutes Buyer's rejection of the terms of the transaction described in the Seller's Transaction Confirmation.

1.3.3 If there are any differences in a material term between Seller's and Buyer's Transaction Confirmations, then any transaction contemplated under Section 1.2 will not be governed by this Contract until or unless such differences are resolved.

1.4 The entire agreement between the parties shall be those provisions contained in the Base Contract and any effective Transaction Confirmation ("Contract"). In the event of a conflict between the terms of any Transaction Confirmation and the terms of this Base Contract, the terms of the Transaction Confirmation shall govern.

ARTICLE II DEFINITIONS

2.1 "British Thermal Unit" or "Btu" shall mean the amount of heat required to raise the temperature of one pound of pure water from 59° Fahrenheit to 60° Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute (psia). MMBtu shall mean one million British Thermal Units.

2.2 "Business Day" shall mean any day except Saturday, Sunday or bank holidays.

2.3 "Contract" shall mean the legally-binding relationship established by (i) this Base Contract and (ii) the provisions contained in any effective Transaction Confirmation(s).

2.4 "Contract Quantity" shall mean the quantity of Gas to be delivered and taken as set forth in the Transaction Confirmation.

2.5 "Cover Costs" shall have the meaning set forth in Section 4.1.

2.6 "Cover Standard" shall mean that if there is an unexcused failure to take or deliver any quantity of Gas pursuant to this Contract, then the non-defaulting party shall use commercially reasonable efforts, consistent with the amount of notice provided by the defaulting party; the immediacy of the Buyer's Gas consumption needs or Seller's Gas sales requirements, as applicable; the quantities involved; and the anticipated length of failure by the defaulting party, to obtain or sell Gas at a price reasonable for the delivery or production area, as applicable.

2.7 "Day" shall mean a period of twenty-four (24) consecutive hours, coextensive with a "day" as defined in the tariff of the Transporter delivering Gas to the Delivery Point in a particular transaction.

2.8 "Delivery Period" shall be the period during which deliveries are to be made as set forth in the Transaction Confirmation.

2.9 "Delivery Point" shall have the meaning as set forth in Section 8.1.

2.10 "Gas" shall mean any mixture of hydrocarbons or of hydrocarbons and non-combustible gases in a gaseous state consisting essentially of methane.

2.11 "Imbalance Charges" shall mean any scheduling penalties, imbalance penalties, overpull or unauthorized overrun penalties, operational flow order penalties, Cash Out Charges, banking charges, or similar penalties, fees or charges assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements.

2.12 "Month" shall mean the period beginning on the first day of the calendar month and ending on the first day of the next calendar month.

2.13 "Schedule" or "Scheduled" shall refer to the act of Seller, Buyer, and the Transporter(s) notifying, requesting, and confirming to each other the quantity of Gas to be delivered hereunder on any given Gas Day during the Delivery Period.

2.14 "Transaction Confirmation" shall mean the form attached in Exhibit A.

2.15 "Transporter(s)" shall mean all Gas pipeline companies, or the physical facilities thereof, transporting Gas for Seller or Buyer upstream or downstream, respectively, of the Delivery Point pursuant to a particular Transaction Confirmation.

ARTICLE III PERFORMANCE OBLIGATION

3.1 The Performance Obligation shall be designated in each Transaction Confirmation from one of the following:

3.1.1 "Interruptible" shall mean that either party may interrupt its performance at any time for any reason, whether or not caused by an event of force majeure, with no liability, except such interrupting party is responsible for any Imbalance Charges as set forth in Section 6.3 related to its interruption after the nomination is made to the Transporter.

3.1.2 "Priority Interruptible" shall mean that either party may interrupt for any reason, whether or not caused by an event of force majeure, after all its Interruptible customers or suppliers ("customers") are curtailed, with no liability, except such interrupting party is responsible for any Imbalance Charges related to its interruption after the nomination is made to the Transporter. If a party curtails a Priority Interruptible customer before curtailing all Interruptible customers, the interrupted customer may recover, as its exclusive remedy, its Cover Costs.

3.1.3 "Secondary Firm" shall mean that either party may interrupt its performance to the extent that such performance is prevented for reasons of Force Majeure or curtailment of such party's interruptible transportation and/or storage, transportation between secondary firm points or recallable firm transportation, with no liability except such interrupting party is responsible for any Imbalance Charges related to its interruption after the nomination is made to the Transporter. If a party interrupts for any other reason or curtails a Secondary Firm customer before curtailing similarly situated Interruptible or Priority Interruptible customers, the non-breaching party's exclusive remedy shall be that it may recover its Cover Costs.

3.1.4 "Primary Firm" shall mean that either party may only interrupt its performance to the extent that such performance is prevented for reasons of Force Majeure or curtailment of firm transportation and/or storage, with no liability except that such interrupting party is responsible for any Imbalance Charges related to its interruption after the nomination is made to the Transporter. If a party interrupts for any other reason or curtails a Primary Firm customer before curtailing similarly affected Interruptible, Priority Interruptible or Secondary Firm customers, the non-breaching party's exclusive remedy shall be that it may recover its Cover Costs.

3.1.5 "EFP" shall mean the purchase, sale or exchange of natural Gas as the "physical" side of an exchange for physical transaction involving futures contracts on the New York Mercantile Exchange. EFP shall incorporate the meaning and remedies of Primary Firm.

3.2 If a party interrupts its performance, such party will curtail each customer group in the order indicated in Section 3.1 and within each priority group, excluding Interruptible customers, in a fair and reasonable manner giving similar treatment to similarly affected customers.

ARTICLE IV DEFAULTS AND REMEDIES

4.1 The exclusive and sole remedy of the parties in the event of a breach of the Performance Obligation shall be recovery of the following Cover Costs: (i) in the event of a breach by Seller, payment by Seller to Buyer in an amount equal to the difference between the Contract Price and the purchase price paid by Buyer utilizing the Cover Standard for replacement Gas, adjusted for reasonable incremental transportation costs to or from the Delivery Point(s), multiplied by the quantity of Gas agreed upon but not delivered by Seller ("Buyer's Cover Costs"); or (ii) in the event of a breach by Buyer, payment by Buyer to Seller in an amount equal to the difference between the Contract Price and the price received by Seller utilizing the Cover Standard from the resale of such Gas, adjusted for reasonable incremental transportation costs to or from the Delivery Point(s), multiplied by the quantity of Gas agreed upon but not taken by Buyer ("Seller's Cover Costs"); (iii) in the event that Buyer has used commercially reasonable efforts to replace the Gas or Seller has used commercially reasonable efforts to sell the Gas to a third party, and no such replacement or sale is available, then the exclusive remedy of the non-breaching party shall be the difference between the Contract Price and the price that would have been paid or received utilizing the Cover Standard multiplied by the quantity of Gas agreed upon but not delivered by Seller.

4.2 IN NO EVENT WILL EITHER PARTY BE RESPONSIBLE, EITHER UNDER THIS ARTICLE IV OR UNDER ANY OTHER TERM OR PROVISION OF THIS AGREEMENT, FOR INCIDENTAL, CONSEQUENTIAL, SPECIAL, OR PUNITIVE DAMAGES.

4.3.1 In the event that the non-defaulting party terminates the Contract under Section 15.1, hereto, the non-defaulting party shall have the right to designate an early termination date ("Early Termination Date") as any date on or after the event of default under Section 15.1. Upon the Early Termination Date, the non-defaulting party shall have the right to liquidate any and all Transactions under this Contract (including any portion of a Transaction not yet fully delivered) then outstanding by:

(i) Closing out each Transaction being liquidated at its Market Value, as defined below, so that each such Transaction is cancelled and a settlement payment in an amount equal to the difference between such Market Value and the Contract Value, as defined below, of such Transaction shall be due to the Buyer under the Transaction if such Market Value exceeds the Contract Value and to the Seller if the opposite is the case; and

(ii) Discounting each amount then due under clause (i) above to present value in a commercially reasonable manner as at the time of liquidation (to take account of the period between the date of liquidation and the date on which such amount would have otherwise been due pursuant to the relevant Transaction); and

(iii) Setting off or aggregating, as appropriate, any or all settlement payments (discounted as appropriate) and (at the election of the non-defaulting party) any or all other amounts owing between the parties under this Contract so that all such amounts are aggregated and/or netted to a single liquidated amount payable by one party to the other. The net amount due any such liquidation shall be paid by the close of business on the Business Day following the Early Termination Date.

4.3.2 For purposes of this Section 4.3, "Contract Value" means the amount of the Gas remaining to be delivered or purchased under a Transaction multiplied by the Contract Price per unit, and "Market Value" means the amount of Gas

remaining to be delivered or purchased under a Transaction multiplied by the market price per unit determined by the non-defaulting party in a commercially reasonable manner. The rate of interest used in calculating net present value shall be determined by the non-defaulting party in a commercially reasonable manner. A Transaction under this Section 4.3 shall constitute a "forward contract" within the meaning of the United States Bankruptcy Code.

4.3.3 The non-defaulting party's rights hereunder and to Cover Costs accrued prior to the termination date are the sole and exclusive remedy of the non-defaulting party. The non-defaulting party shall give notice that a liquidation pursuant to Section 4.3.1 has occurred to the defaulting party no later than the Business Day following such liquidation, provided that failure to give such notice shall not affect the validity or enforceability of the liquidation or give rise to any claim by the defaulting party against the non-defaulting party.

ARTICLE V TRANSPORTATION AND DISPATCHING

5.1 Seller shall have the sole responsibility for transporting the Gas, or ensuring that the Gas is transported, to the Delivery Point. Buyer shall have the sole responsibility for transporting the Gas, or ensuring that the Gas is transported at and after the Delivery Point.

5.2 If the supply or transportation necessary to deliver or receive the Contract Quantity is unavailable for any reason, the party responsible for or having notice of such interruption shall promptly notify the other party by telecopy. Seller and Buyer shall then cooperate in all reasonable actions to avoid penalties imposed by the Transporter(s). Notwithstanding the above, any notice of interruption shall not be considered an amendment of the Performance Obligation.

ARTICLE VI QUANTITY, SCHEDULING AND IMBALANCES

6.1 Seller agrees to sell and deliver, and Buyer agrees to receive and purchase, the Contract Quantity for a particular transaction in accordance with the terms of this Contract.

6.2 The parties shall coordinate their Scheduling requirements by telephone with immediate confirmation in writing by telecopy. Ample time must be given to meet the Scheduling deadlines of the affected Transporter(s). Each party's dispatcher shall give the other party's dispatcher timely prior notice, sufficient to meet the requirements of all Transporter(s) involved in the Gas delivery to Buyer, of the quantities of Gas to be delivered and purchased each Day. Such notice shall be at least twenty-four hours prior to the earliest regularly scheduled nomination deadline of the Transporters receiving or delivering Gas commencing on the first day of a month, and two hours earlier than such deadline for any subsequent nomination if intramonth changes are authorized. Should either party become aware that actual deliveries at the Delivery Point(s) are greater or lesser than the Scheduled Gas, such party shall notify immediately the other party's Gas Control dispatcher by telephone to be followed up with written telecopy notice within twenty-four hours.

6.3 The parties shall use all reasonable efforts to avoid imposition by any Transporter of Imbalance Charges. If, during any Month, Buyer or Seller receives an invoice from a Transporter which includes Imbalance Charges, the parties shall use their commercially reasonable efforts to promptly determine the validity as well as the cause of such Imbalance Charges. If the parties determine that the Imbalance Charges were incurred as a result of Buyer's actions or inactions (which shall include, but shall not be limited to, Buyer's failure to accept quantities of Gas equal to the Scheduled Gas), then Buyer shall pay for such Imbalance Charges or reimburse Seller for such Imbalance Charges paid by Seller to the Transporter. If the parties determine that the Imbalance Charges were incurred as a result of Seller's actions or inactions (which shall include, but shall not be limited to, Seller's failure to deliver quantities of Gas equal to the Scheduled Gas), then Seller shall pay for such Imbalance Charges, or reimburse Buyer for such Imbalance Charges paid by Buyer to the Transporter.

ARTICLE VII QUALITY

7.1 All Gas delivered by Seller shall meet the quality and heat content requirements of Transporter(s)' tariff(s), as may be amended from time to time.

7.2 Seller makes no warranties of merchantability or fitness for particular purpose with respect to any gas sold hereunder.

ARTICLE VIII DELIVERY POINT AND DELIVERY PRESSURE

8.1 The Delivery Point(s) for all Gas delivered hereunder shall be such points as are mutually agreed upon between Seller and Buyer as set forth in the Transaction Confirmation.

8.2 Gas delivered hereunder shall be at commercial operating pressures sufficient to deliver such quantities at the Delivery Point(s).

ARTICLE IX MEASUREMENT

9.1 The unit of quantity measurement for purposes of this Contract shall be one MMBTU.

9.2 Measurement of Gas quantities hereunder shall be in accordance with the tariff of the first Transporter immediately downstream of the Delivery Point(s).

ARTICLE X PRICE

10.1 The Contract Price for all Gas delivered hereunder shall be expressed in U.S. Dollars per MMBTU ($/MMBtu). **The price shall be agreed to by Buyer and Seller for each specific transaction and shall be included in the Transaction Confirmation.**

ARTICLE XI TAXES

11.1 Seller shall pay or cause to be paid, all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas prior to its delivery at the Delivery Point(s). Buyer shall pay or cause to be paid, all Taxes on or with respect to the Gas at or after its delivery at the Delivery Point(s). If a party is required to remit or pay Taxes which are the other party's responsibility hereunder, such party shall promptly reimburse the other party for such Taxes. If Buyer is entitled to an exemption of such Gas from any such Taxes or charges, Buyer shall furnish Seller any necessary exemption or resale certificate covering the Gas delivered hereunder at the Delivery Point(s).

11.2 If any Goods and Service Tax ("GST") imposed pursuant to the Excise Tax Act (Canada), as amended from time to time is payable in connection with Gas purchased hereunder, such GST shall be paid by Buyer to Seller, as agent for the federal government of Canada, and Seller shall remit such GST as required by law.

ARTICLE X II BILLING, PAYMENT AND AUDIT

12.1 On or before the tenth day following the Month of deliveries of Gas hereunder, Seller shall deliver to Buyer a statement for the preceding Month properly identified as to the Delivery Point and applicable Transaction Confirmation showing the total quantity of Gas delivered and the amount due. If the actual quantity delivered is not available by the contractual billing date, billing will be prepared based on the Scheduled quantities. The Scheduled quantity will then be corrected to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available.

12.2 Buyer shall remit by the method (~~check~~, Automated Clearing House (ACH) or wire transfer) indicated on the Transaction Confirmation the amount due pursuant to Seller's invoice instructions, by the later of the 25th day of the Month in which the statement was rendered or ten days after receipt of the statement by Buyer; provided that if the 25th day is not a Business Day, payment is due on the next Business Day following that date. If Buyer fails to remit the full amount payable by it when due, interest on the unpaid portion shall accrue at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum from the date due until the date of payment, or (ii) the maximum applicable lawful interest rate. If Buyer, in good faith, disputes the amount of any such statement or any part thereof, Buyer will pay to Seller such amount as it concedes to be correct; provided, however, if Buyer disputes the amount due, Buyer must provide supporting documentation acceptable in industry practice from its Transporter to verify the amount paid. If it is ultimately determined that Buyer owes the disputed amount, Buyer will pay Seller that amount with interest as determined above immediately upon such determination.

12.3 - The parties shall have the right, upon reasonable notice and at reasonable times, to examine the books and records of the other party to the extent reasonably necessary to verify (i) the accuracy of any statement, charge, payment, computation made under the Contract or (ii) any curtailment of service under Section 3.2. Any such audit and any claim based upon errors in any statement or unauthorized curtailment must be made within two years of (i) the date of such statement or any revision thereof or (ii) the last Day of the Month during which any such alleged unauthorized curtailment occurs. Following such two year period, a billing statement as adjusted shall be final. Errors in a party's favor shall be rectified in full, with interest as calculated above, by such party within 30 days of notice and substantiation of such inaccuracy.

12.4 Nothing in receipt of any invoice or statement or any information concerning a transaction and nothing in the act of payment or partial payment shall constitute accord and satisfaction, waiver, release, full payment, satisfaction, laches, estoppel or other defense to a claim by or against the Seller or Buyer for the true and actual amount accurately due and payable for the full period of two years in arrears.

12.5 Effective as of the effective date of this contract, in consideration of the mutual benefits to be derived hereunder by each of the parties and for their mutual convenience, the parties hereby agree that each of them shall have the right to offset accrued and unpaid financial obligations arising under this contract. If any of the financial obligations owed by either party is not fully paid and discharged, the creditor party shall have the right to offset at any time and without notice to the debtor party, any and all obligations for the payment of money that the creditor party may have to the debtor party under this contract.

ARTICLE XIII TITLE, WARRANTY AND INDEMNITY

13.1 Title to the Gas shall pass from Seller to Buyer at the Delivery Point(s). Seller shall have responsibility for and assume any liability with respect to the Gas prior to its delivery to Buyer at the specified Delivery Point(s). Buyer shall have responsibility for and any liability with respect to said Gas at and after its delivery to Buyer at the Delivery Point(s).

13.2 Seller warrants that it will have good and merchantable title to or will have the right to deliver all Gas sold hereunder and delivered by it to Buyer, free and clear of all liens, encumbrances, and claims.

13.3 Seller and Buyer each warrants that it is engaged in the direct commercial use of natural Gas in the ordinary course of its business, as producer, processor, merchant, or consumer or otherwise has knowledge of the practices associated with the purchase or sale of natural Gas. Each further warrants that it has and will maintain all the regulatory authorizations, certificates, and documentation as may be necessary and legally required to transport, buy, or make sales for resale of Gas sold or purchased hereunder.

13.4 If any claim related to the title to the Gas sold hereunder is asserted at any time, Buyer may withhold payment of up to the amount of such claim without interest, as security for the performance of Seller's obligations hereunder until such claim has been finally determined, or until Seller has furnished a bond or other acceptable assurances to Buyer under terms and conditions satisfactory to Buyer, and in an amount with surety satisfactory to Buyer.

13.5 Seller agrees to indemnify Buyer and save it harmless from all suits, actions, debts, accounts, damages, costs, losses, liabilities and expenses arising from or out of claims of title, personal injury or property damage from any or all persons to said Gas or other charges thereon which attach before title passes to Buyer. Buyer agrees to indemnify Seller and save it harmless from all suits, actions, debts, accounts, damages, costs, losses, liabilities and expenses arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach at and after title passes to Buyer.

ARTICLE XIV NOTICES

14.1 All Transaction Confirmations and other communications ("Communications") made pursuant to the Contract shall be made as follows:

perform its obligations under the Contract within forty-eight (48) hours of a reasonable request by the other party, then the other party shall have the right to either withhold and/or suspend deliveries, or terminate the Contract without prior notice, in addition to any and all other remedies available hereunder. Seller may immediately suspend deliveries to Buyer hereunder in the event Buyer has not paid any amount due Seller hereunder on or before the second day following the date such payment is due.

15.2 Each party reserves to itself all rights, set-offs, counterclaim, and other defenses which it is or may be entitled to arising from or out of the Contract.

ARTICLE XVI FORCE MAJEURE

16.1 Except with regard to a party's obligation to make payments due under the Contract, neither party shall be liable to the other for a failure to perform its obligations hereunder, if such failure was caused by Force Majeure. As used herein, the term "Force Majeure" shall mean an unforeseen occurrence or event beyond the control of the party claiming excuse which partially or entirely prevents that party's performance of its obligations, except the obligation to make payments due under any transaction.

16.2 The party whose performance is prevented by Force Majeure must provide notice to the other party. Initial notice may be given orally; however, written notification with particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written notification of Force Majeure to the other party, the affected party will be relieved of its obligation to make/accept delivery of Gas to the extent and for the duration of Force Majeure and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event.

16.3 Force Majeure shall include but not be limited to the following: (i) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe, weather related events such as hurricanes or freezing or failure of wells or lines of pipe which affects an entire geographic region; (ii) acts of others such as strikes, riots, sabotage, insurrections or wars; (iii) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, or regulation promulgated by a governmental authority having jurisdiction; and (iv) any other causes, whether of the kind herein enumerated or otherwise not reasonably within the control of the affected party. Seller and Buyer shall make reasonable efforts to avoid Force Majeure and to resolve the event or occurrence once it has occurred in order to resume performance.

16.4 Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected from any or all of the following circumstances: (1) the sole or contributory negligence of the party claiming excuse; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; (iii) economic hardship. Force Majeure shall not excuse the party's, claiming Force Majeure, responsibility for Imbalance Charges.

16.5 Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party experiencing such disturbance.

ARTICLE XVII GOVERNMENTAL REGULATION

17.1 This Contract and all provisions herein will be subject to all applicable and valid statutes, rules, orders and regulations of any Federal, State, or local governmental authority having jurisdiction over the parties, their facilities, or Gas supply, this Base Contract or Transaction Confirmation or any provisions thereof.

17.2 Neither party will be held in default for failure to perform under this Contract, if such failure is due to compliance with such rules, regulations, laws, orders or directives of any State, Federal or other governmental regulatory authority.

ARTICLE XVIII TERM

18.1 This Base Contract shall remain in effect for one month from the date hereof and from month to month thereafter unless terminated by either party on 30 days advance written notice; provided, however, that, except as provided in Section

4.3 if one or more Transaction Confirmations are in effect, termination shall not be effective until the expiration of the latest Delivery Period of such Transaction Confirmation(s). The obligations of Buyer to make payment hereunder for Gas which has been delivered and the obligation of Seller to indemnify Buyer, and Buyer to indemnify Seller, pursuant hereto shall survive the termination or cancellation of the Contract or Transaction Confirmation.

ARTICLE XIX DISPUTE RESOLUTION

19.1 In the event a dispute arises between Buyer and Seller, or the successors or assigns of either of them, regarding the application or interpretation of any provision of this Base Contract or a Transaction Confirmation, the aggrieved party shall promptly notify the other party of its intent to invoke this dispute resolution procedure after such dispute arises. If the parties shall have failed to resolve the dispute within ten Business Days after delivery of such notice, each party shall, within five Business Days thereafter nominate a senior officer of its management to meet at a mutually agreed location to resolve the dispute.

ARTICLE XX MISCELLANEOUS

20.1 This Contract shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective parties hereto, and the covenants, conditions, and obligations of this Contract shall run for the full term of this Contract. No assignment of this Contract, in whole or in part, will be made without the prior written consent of the non-assigning party, which consent will not be unreasonably withheld.

20.2 If any provision in this Contract is determined to be invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other provision, agreement or covenant of this Contract.

20.3 No waiver of any breach of this Contract shall be held to be a waiver of any other or subsequent breach. All remedies afforded in this Contract shall be taken and construed as cumulative.

20.4 This Contract sets forth all understandings between the parties respecting the subject matter of each transaction and any prior contracts, understandings and representations, whether oral or written, representing this subject matter are merged into and superseded by the Base Contract and any effective Transaction Confirmation(s). This Contract may only be amended in writing.

20.5 This Contract may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. As used herein, the singular of any term shall include the plural.

20.6 The interpretation and performance of this Contract shall be governed by the laws of Texas, excluding, however, any conflict of laws rule which would apply to the law of another jurisdiction.

20.7 This Contract was prepared jointly by Seller and Buyer, and, in the event of doubt or ambiguity in the language of any of its provisions, shall be construed with equal strength in favor of both parties.

20.8 The terms of this Contract and of any Transaction Confirmation entered into pursuant hereto, including but not limited to the Contract Price, the Contract Quantity, the Delivery Period, the identified Transporter(s), and all other material terms thereof shall be kept confidential by the parties hereto for one year from the expiration of such Transaction, except to the extent that any information must be disclosed to a third party for the purpose of effectuating transportation of Gas subject to the Contract or to meet New York Mercantile Exchange requirements or governmental filing requirements where necessary, in which case the disclosing party will immediately notify the other party.

20.9 No party shall record any discussion between the parties' without first obtaining the written consent of the other party. The parties agree that any unauthorized recording may not be used in any proceedings between the parties.

20.10 Compliance with the confirmation procedures of Article I satisfies any "writing" requirements imposed under the Uniform Commercial Code or any other applicable contract law.

IN WITNESS WHEREOF, parties hereto have caused their names to be signed and executed in duplicate.

CONOCO INC.	Energy Source, Inc.
By: Robert J. Foley	By:
Title: Director, Gas Marketing	Title: Sr Vice Pres
Date: August 31, 1995	Date: Sep 13, 1995

14622-S
14633-F

********** ATTENTION **********

GOLD SYSTEM pp 2/15/96

EFFECTIVE IMMEDIATELY , ENERGY SOURCE, INC.'S ACCOUNTING AND CONTRACTS DEPARTMENTS ADDRESS HAS BEEN CHANGED. PLEASE CHANGE YOUR RECORDS ACCORDINGLY.

DN

ENERGY SOURCE, INC.
10375 RICHMOND AVENUE
SUITE 300
HOUSTON, TX 77042

ACCOUNTING:
TELEPHONE NUMBER : 713/782-0095
FACSIMILE NUMBER: 713/917-1563

CONTRACTS:
TELEHONE NUMBER: 713/914-1123
FACSIMILE NUMBER: 713/914-1102

14633
14622

VIA: CERTIFIED MAIL

January 24, 1997

Conoco Inc.
600 North Dairy Ashford
Houston, TX 77252
Attn: Contract Administration

RE: Consent to Assignment of Gas Purchase/Sales Agreement, Dated July 1, 1995

This letter is to notify you that Energy Source, Inc., has sold substantially all of its assets to a wholly-owned subsidiary of Pacific Gas Transmission Company ("PGT") of Portland, Oregon. PGT is a wholly-owned subsidiary of Pacific Gas and Electric Company ("PG&E") and is the largest U.S. transporter of Canadian natural gas. PGT owns and operates a natural gas pipeline system that begins at the Idaho/Canadian border and ends at the Oregon/California border, where PGT interconnects with PG&E. A copy of the Press Release announcing the sale is enclosed.

The subsidiary of PGT that acquired the Energy Source assets has been renamed as Energy Source, Inc., a California corporation. Included in the assets acquired by the "new" Energy Source is the Agreement between you and the "old" Energy Source. Therefore, for the purpose of your Agreement, the name and address of Energy Source will remain the same, and the same Energy Source employees will continue to provide the excellent service that you were receiving prior to the sale.

Since your Agreement with Energy Source contains a provision requiring either notice to you or your consent to the assignment, we request your consent to the assignment. Therefore, we would appreciate it if you would sign the attached consent form and return it to me either by fax or mail at the fax number or address indicated below.

Thank you in advance for your prompt response. If you have any questions, please do not hesitate to call me at (713) 914-1185.

Sincerely,
Energy Source, Inc.

Kathy A. Fudali
Director, Contract Administration/Credit

PLEASE FAX SIGNED CONSENT TO ASSIGNMENT AT (713) 917-1562, OR MAIL TO ENERGY SOURCE, INC., 10375 Richmond Avenue, Suite 300, Houston, Texas 77042

CONSENT TO ASSIGNMENT

Reference is made to that certain Gas Purchase/Sales Agreement, dated July 1, 1995 (the "Agreement"), between ENERGY SOURCE, INC., a Texas corporation ("ESI"), and Conoco Inc. to the Agreement. Conoco Inc. hereby consents to the assignment by ESI to Energy Source, Inc., a California corporation , and a wholly-owned subsidiary of Pacific Gas Transmission Company, of all of ESI's rights, titles and interests in and to the Agreement arising after 11:59:59 p.m. (Houston, Texas time) (the "Effective Time") on November 30, 1996, the effective date of such assignment.

IN WITNESS WHEREOF, the Other Party has executed this Consent to Assignment as of the 19 day of February, 1997.

Conoco Inc.

By: Jackie Graham
Name: Contract Admin Coordinator
Title: Jackie Graham

Energy Source, Inc.
10375 Richmond, Suite 300
Houston, TX 77042
Phone: 713-914-1100
Facsimile: 713-914-1102

fax transmittal

from ~~to~~: Pat Presley

fax: (281) 293-1720

to ~~from~~: Tina Andrews - Yolanda

date: 2-19-97

re: Consent to Assignment

pages: (Including cover) 3

NOTES: Please return by fax to (713) 914-1621
If you have any questions please call (713) 914-1162

14622
14633

PG&E Energy Trading

10375 Richmond Avenue
Suite 300
Houston, TX 77042

713.914.1100
Fax: 713.914.1102

April 17, 1997

Re: Name Change of Energy Source, Inc.

Ladies and Gentlemen:

Please be advised that Energy Source, Inc., has changed its name to "PG&E Energy Trading Corporation" effective April 8, 1997. Enclosed please find a copy of the Certificate of Amendment to the Certificate of Incorporation filed with the State of California and the PG&E Corporation News Release.

Please continue to use the following address for future correspondence.

PG&E Energy Trading Corporation
10375 Richmond Ave, Suite 300
Houston, Texas 77042
Main # (713) 914-1100
Fax# (713) 917-1598

If you have any questions, please do not hesitate to call me at 713-917-1545 or Kathy Fudali at 713-914-1185.

Sincerely,

Lisa D. Holliday
Vice President & Treasurer

MAY 7 97 0 1 8 4 3 2
RECEIVED
REAL PROPERTY DIVISION
PONCA CITY

A4901

State of California

SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the annexed transcript has been compared with the corporate record on file in this office, of which it purports to be a copy, and that same is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this

APRIL 8, 1997

Secretary of State

003490

190153

ENDORSE
FILED
In the office of the Secreta
of the State of Calific

APR - 7 199

BILL JONES, Secretary of

ENERGY SOURCE, INC.

CERTIFICATE OF AMENDMENT

OF

ARTICLES OF INCORPORATION

The undersigned, David Tudor and Vincent P. Salvi, hereby certify that:

1. They are the President and Assistant Secretary, respectively, of Energy Source, Inc., a California corporation.

2. Article FIRST of the Articles of Incorporation of this corporation is amended to read as follows:

FIRST

The name of this corporation is "PG&E Energy Trading Corporation".

3. The foregoing amendment of the Articles of Incorporation has been duly approved by the Board of Directors.

4. The foregoing amendment of the Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the Corporations Code. The total number of outstanding shares of this corporation is 1000. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%.

The undersigned further declare under penalty of perjury under the laws of the State of California that the matters set forth in this Certificate of Amendment are true and correct of their own knowledge.

Dated: April 4, 1997

David J. Tudor, President

Dated: April 4, 1997

Vincent P. Salvi, Assistant Secretary

MCH SUP077924
003492

PG&E Corporation

News Department
77 Beale Street
San Francisco, CA 94105
415/973-5930

NEWS

FOR IMMEDIATE RELEASE

April 8, 1997

PG&E CORP EXPANDS/RENAMES ENERGY TRADING SUBSIDIARY

PG&E Corporation (NYSE:PCG) announced today that it will consolidate its new energy trading units acquired in recent acquisitions and base them in Houston, Texas, under the new name PG&E Energy Trading. The move, which will combine trading and support operations from newly acquired Energy Source, Inc. (ESI) and TECO Gas Marketing, will help form one of the largest natural gas trading businesses in North America.

Approximately 25 employees of PG&E Corporation subsidiary TECO Gas Marketing, also of Houston, will move to PG&E Energy Trading. They will join the 94-person staffing come from ESI and will be located with these employees in ESI's offices in Houston.

In addition to U.S. operations, PG&E Energy Trading will continue to conduct business in Canada, where PG&E Energy Source, Canada, a unit of Energy Source, will be renamed PG&E Energy Trading, Canada, based in Calgary.

"Today's announcement represents another step toward establishing PG&E as one of the top energy services companies in the United States," said Robert D. Glynn Jr., president and chief operating officer of PG&E Corporation. "The establishment of PG&E Energy Trading complements the ongoing expansion of our gas transmission business in Texas and Australia, and will serve as a solid partner for joint business activities with PG&E Energy Services, the corporation's retail energy services subsidiary. In addition, PG&E Energy Trading will be working with U.S. Generating Company, one of the nation's leading competitive power suppliers, which is jointly

owned by affiliates of PG&E Corporation and Bechtel Enterprises, Inc., that will develop approaches to enhance both of their positions in these energy markets."

Jack F. Jenkins-Stark, PG&E senior vice-president and general manager of its gas transmission and marketing operations, said, "The combination of these highly skilled and experienced energy trading teams will enable us to aggressively grow this business both through direct efforts and through partnerships."

PG&E Energy Trading markets natural gas as well as other selected energy commodities to competitive energy services businesses and to regulated utilities. It also markets to large, end-use customers who purchase their energy in wholesale volume.

"PG&E Energy Trading is committed to establishing a national market presence, providing wholesale customers with innovative products and competitive prices and supporting PG&E Energy Services with a broad portfolio of energy products and services for the retail market," said Jenkins-Stark.

PG&E Corporation's merger with Valero Energy Corp. of San Antonio, Texas, is expected to close in July of this year following regulatory and shareholder approval. The pipeline and gas liquids operations of Valero and TECO Pipeline Co. will be combined and will be renamed PG&E Gas Transmission, Texas. Valero's significant energy commodity trading function will be combined with PG&E Energy Trading when the merger closes.

Following this combination, PG&E Energy Trading will rank among the top five gas trading companies in the nation.

David J. Tudor, president and CEO of Energy Source, Inc., will function as interim president of PG&E Energy Trading.

PG&E Corporation is an energy-based holding company headquartered in San Francisco, Calif. Through its subsidiaries and their affiliates, PG&E Corporation markets energy services throughout North America and Australia. In addition to owning PG&E Energy Trading and PG&E Energy Services, it is the parent of Pacific

Gas and Electric Company, which provides natural gas and electricity to more than 13 million people in Northern and Central California.

PG&E Gas Transmission and its affiliates own and operate gas transmission lines in the Pacific Northwest, Texas, and Queensland Australia. PG&E Corporation has announced its intention to purchase San Antonio-based Valero Energy Corporation a major gas transmission and marketing company which owns and operates 7500 miles of natural gas transmission lines throughout Texas. With Bechtel Enterprises, Inc., PG&E Corporation owns U.S. Generating Company, one of the nation's leading competitive power suppliers, with interests in electricity generation, power marketing and trading, natural gas pipelines and storage, and fuel management. USGen is the nation's second largest independent power generation firm with about 3,400 megawatts of capacity in operation at 17 plants throughout the U.S.

-30-

For more information about PG&E Corporation and its affiliates and subsidiaries, please visit our web site WWW.PGE.COM.

14622

PG&E Energy Trading

1100 Louisiana
Suite 1000
Houston, TX 77002
Mailing Address
Post Office Box 4791
Houston, TX 77210-4791

713.371.6100

To: **PG&E Energy Trading Customers**

RE: **Notice, Payment and Address Information effective as of 1/1/98**

Official Company Name:	PG&E Energy Trading – Gas Corporation
Physical Address:	1100 Louisiana, Suite 1000 Houston, Texas 77002
Mailing Address:	P. O. Box 4791 Houston, Texas 77210-4791
Attention:	Contract Administration (gen. correspondence & notices) Gas Accounting (invoices & payments) Nominations & Operations (scheduling & volumes)
Main Phone Number:	(713) 371-6000
Main Fax Number:	(713) 371-6821
State of Incorporation:	California
Federal Tax ID:	94-3115649
Duns Number:	83-469-2394
Payment by check:	PG&E Energy Trading – Gas Corporation P. O. Box 297268 Houston, Texas 77297-0268
Payment by wire:	Bank: Boston Safe Deposit & Trust Location: Medford, Massachusetts (B)(4) ABA #: [redacted] (B)(5) Account #: (B)(7)(e) Acct. Name: PG&E Energy Trading – Gas Corporation

PG&E Energy Trading Corporation
1100 Louisiana
Houston, Texas 77002
Phone: (713) 371-6000
Facsimile: (713) 371-6899

Fax Transmittal

TO: Rita White - Conoco

FAX #: 281/293-1720

FROM: Ellen Klecka

DATE: April 22, 1998

SUBJECT: Notice Information

PAGES: (including cover) 2

NOTES: See attached for details. If you have questions or need more information, call me at (713) 371-6632.

K14622

ATTENTION:

ALL COMPANIES SELLING NATURAL GAS TO OR PURCHASING NATURAL GAS FROM

PG&E Energy Trading-Gas Corporation

Effective immediately

All Confirmations for Physical Natural Gas Transactions only should now be faxed to: **(713) 371-6309**

The number to fax Confirmations for Financial Trades has not been changed.

****

PLEASE note that PG&E Energy Trading's name has been changed from PG&E Energy Trading Corporation to

PG&E ENERGY TRADING-GAS CORPORATION

Future confirmations for natural gas purchases or sales with PG&E Energy Trading-Gas Corporation must reflect Energy Trading's legal name.

If you have any questions concerning this notice, please contact:
Linda Bellow
Contract Administration
(713) 371-6649

conoco

14622

Debra L. Lemons
Staff Analyst
Natural Gas & Gas Products

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(281) 293-1082
Fax: (281) 293-1720

June 30, 1999

Company policy is not
to sign anything re: Y2K

PG&E Energy Trading –Gas Corporation
P.O Box 4791
Houston, TX 77210-4791

Attn: Contract Administration

RE: Base Contract for Sale and Purchase of Natural Gas dated July 1, 1995

Dear Contract Administration:

Pursuant to the subject Agreement, Conoco Inc. and PG&E Energy Trading – Gas Corporation hereby agree to add the following provision effective July 1, 1999:

Two Way Year 2000 Warranty

A. The parties to this Agreement warrant that their performance will not be adversely affected by the improper processing of date related data by their computer systems, software or other equipment. Further, each party agrees to obtain a similar warranty from their subcontractors and suppliers whose performance is material to that party's contractual obligations. The parties will use reasonable commercial efforts to cooperate and share information to minimize the impact of any Year 2000 Problem on performance of this Agreement. Further, each party will inform the other party of any possible obstacle to compliance with this article and the steps being taken to avoid or overcome the obstacle.

B. If a party complies with Section A, then it will not be liable for a breach of this Agreement to the extent such breach arises out of a Year 2000 problem by the party's suppliers/subcontractors or arises out of circumstances beyond the party's control (e.g. a failure on the party of a governmental entity).

C. A "Year 2000 Problem" means a failure to correctly perform, process and handle date related data which adversely impacts the use and/or operation of software, equipment or a computer system.

All other provisions outlined in the Agreement shall remain in effect.

PG&E ENERGY TRADING – GAS CORPORATION
Base Contract for Sale and Purchase of Natural Gas dated July 1, 1995

Please execute both originals and return one to Conoco Inc., P.O. Box 2197, Room CH-1081, Houston, TX 77252.

If you have any questions or concerns, I can be reached at the above number.

Sincerely,

Debra L. Lemons

Debra L. Lemons

Enclosures

cc: Contract #14622

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 1999.

PG&E ENERGY TRADING – GAS CORPORATION

BY: _____

TITLE: _____

DATE: _____

AGREED TO AND ACCEPTED THIS 30th DAY OF June, 1999.

CONOCO INC.

BY: Carole W. Poulter

TITLE: Carole W. Poulter - Director, Gas Marketing
~~West Commercial Unit~~

DATE: 6/30/99

NATURAL GAS AND GAS PRODUCTS
CONTRACT INDEX
CONTRACT NUMBER: 14622

CONTRACT STATUS: ACTIVE

CROSS REF: 14633
CONTRACT DATE: 07/01/95
CONTRACT TYPE: BUY/SELL

CONOCO PARTY: CONOCO INC.
CUSTOMER: PG&E ENERGY TRADING-GAS

LOCATION:

	DATE	
F	05/01/98	NOTIFICATION OF NAME & ADDRESS CHANGES FOR PG&E ENERGY TRADING TO PG&E ENERGY TRADING-GAS CORP.
E	04/08/97	NAME CHANGE FROM ENERGY SOURCE, INC. TO PG&E ENERGY TRADING CORP.
D	02/19/97	CONSENT TO ASSIGNMENT EFF. 11/30/96. (NO NAME CHANGE)
C	12/01/96	NOTIFICATION OF PAYMENT ADDRESS CHANGE FOR CONOCO.
B	05/01/96	ADDRESS CHANGE.

REPORT NO. : HB795-01 JOB NUMBER: JN1345Z RUN DATE: 10/16/98

Maria E. Hendrix
Senior Analyst
Natural Gas & Gas Products

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(281) 293-5359
Fax: (281) 293-1720

NG & GP
3/22/00

March 22, 2000

PG&E Energy Trading Corporation
10375 Richmond Ave. Suite 300
Houston, Texas 77042

Attn: Ms Ellen Klecka

RE: Amendment to Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995
Conoco Contract No. 14622

Gentlemen:

Conoco Inc. desires to add the following to the end of Article X, Price of the Contract.

> Such price will be inclusive of reimbursement for production, severance and all other taxes attributable to the gas prior to its delivery at the Delivery Point(s).

The effective date of this amendment will be April 1, 2000.

Please execute below and return one original for our files. If you have any questions, please contact Maria Hendrix at 281-293-5359.

PG&E Energy Trading- Gas Corporation

By: _____

Date: _____

Conoco Inc.

By: Peter D. Clement

Date: March 22, 2000

14622

PG&E Energy Trading

1200 Louisiana, Suite 1000
Houston, TX 77002

Mailing Address
P.O. Box 4791
Houston, TX 77210-4791

July 10, 2000

Dear Counterparty:

The purpose of this letter is to notify you of certain address changes for PG&E Energy Trading - Gas Corporation and to provide you with a current list of authorized representatives for PG&E Energy Trading - Gas Corporation.

Effective as of the date hereof through August 31, 2000, please direct all invoices (to the attention of Gas Accounting), confirmations (to the attention of Confirmations), and notices and correspondence (to the attention of Senior Vice President) to:

PG&E Energy Trading - Gas Corporation
7500 Old Georgetown Road
Bethesda, Maryland 20814
Telephone: (301) 280-6600

General Facsimile: (301) 280-6601
Accounting Facsimile: (301) 280-6604
Confirmations Facsimile: (301) 280-6060

Effective as of September 1, 2000, please direct all invoices (to the attention of Gas Accounting), confirmations (to the attention of Confirmations), and notices and correspondence (to the attention of Senior Vice President) to:

PG&E Energy Trading - Gas Corporation
7600 Wisconsin Avenue
Bethesda, Maryland 20814
Telephone: (301) 280-6600

General Facsimile: (301) 280-6601
Accounting Facsimile: (301) 280-6604
Confirmations Facsimile: (301) 280-6060

Please continue to direct all wire payments to the existing account of PG&E Energy Trading - Gas Corporation.

Set forth below is a list of the authorized representatives of PG&E Energy Trading - Gas Corporation. Effective immediately, no other persons are authorized to execute trades on behalf of PG&E Energy Trading - Gas Corporation.

Mike Axton	*George Denos*	*Ravi Kapoor*	*Chuck Neutzler*
Bob Barron	*Tom Dickey*	*Allen King*	*Sarah Ochsner*
Sarah Barpoulis	*Jim Goetz*	*Christina Lee*	*Julie Pedersen*
Ira Block	*Adam Hoffman*	*Scott Linkletter*	*Mike Reed*
John Broyles	*Lisa Hough*	*Lyn Maddox*	
Pat DeMamiel	*Susan Jones*	*Brian May*	

We look forward to continuing to do business with you from our new locations in Bethesda, Maryland you have any questions, please do not hesitate to contact me at (301) 280-6615, or our Assistant Gene Counsel, Jennifer Hein, at (301) 280-6326.

Sincerely,

Sarah M. Barpoulis
Senior Vice President

PG&E Energy Trading and any other company referenced herein which uses the PG&E name or logo are not the same corp and Electric Company, the California utility. These companies are not regulated by the California Public Utilities Commission to not have to buy products from these companies in order to continue to receive quality regulated services from

conoco

PF
3/21

Maria E. Hendrix
Senior Analyst
Natural Gas & Gas Products

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(281) 293-5359
Fax. (281) 293-1720

December 18, 2000

PG&E Energy Trading - Gas Corporation
7500 Old Georgetown Road
Bethesda, MD 20814

Attn: Senior Vice President

RE: Amendment to Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995
Conoco Contract No. 14622

Gentlemen:

Conoco Inc. and PG&E Energy Trading - Gas Corporation (formerly known as Energy Source Inc.) have entered into that certain Base Contract for Sale and Purchase of Natural Gas date July 1, 1995 (the "Base Contract"). The parties wish to amend the Base Contract as follows:

Sections 1.3.1, 1.3.2 and 1.3.3 shall be deleted and replaced with the following:

1.3.1 A transaction may be formed (i) by a written Transaction Confirmation executed by the Parties (including by facsimile and/or counterparts) or (ii) in a recorded telephone conversation between the Parties occurring on any Day whereby an offer and acceptance shall constitute the agreement of the Parties as evidenced by the telephonic recording.

1.3.2 In addition to the foregoing, the Parties agree that Seller may confirm a telephonic transaction by forwarding to Buyer by facsimile a Transaction Confirmation within 48 hours of the Transaction formation. The Parties agree that any objections to the contents of a Transaction Confirmation shall be made in writing before the expiration of two Business Days after a Party receives a Transaction Confirmation ("Confirmation Deadline") for all purposes hereunder and at law. Upon issuance of a Confirmation and the passage of the Confirmation Deadline, if no objection to the Confirmation has been received, the Confirmation shall be deemed accepted; provided however, that in the event of a conflict between a telephonic recording and a Transaction Confirmation, the telephonic recording, shall control for all purposes.

1.3.3 Each Party consents to and has obtained any necessary consent of its employee to the recording of its employees' telephone conversations without any further notice. An Transaction formed and effectuated pursuant to a recorded telephone conversatio between the Parties shall be considered to be a "writing" or "in writing" and to have bee "signed" and any telephonic recording shall be considered to constitute an "original document evidencing the Transaction. The Parties agree not to contest or assert

defense to the validity or enforceability of Transactions evidenced by telephonic recordings under laws relating to whether certain agreements are to be in writing or signed by the Party to be thereby bound.

At the end of Article X, Price of the Contract, the following sentence shall be added.

Such price will be inclusive of reimbursement for production, severance and all other taxes attributable to the gas prior to its delivery at the Delivery Point(s).

The effective date of this amendment will be January 1, 2001

Please execute below and return one original for our files. If you have any questions, please contact Maria Hendrix at 281-293-5359.

PG&E Energy Trading- Gas Corporation	Conoco Inc.
By:	By:
Date: 1/17/01	Date: 1/4/01

/ 4 6 <<

Amendment to
Base Contract for Sale and Purchase of Natural Gas

This Amendment is entered into effective January 12, 2001 to amend that certain Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995, ("Contract") between Conoco Inc. ("Conoco") and PG&E Energy Trading-Gas Corporation's ('PG&E") predecessor Energy Source, Inc.

Recitals

Conoco has asserted that reasonable grounds for insecurity of payment by PG&E have arisen and that Conoco requires additional security from PG&E for Conoco to continue delivering gas to PG&E pursuant to existing or future Transactions.

Pursuant to Section 15.1 of the Contract, Conoco has the unilateral right to terminate the Contract and to cease delivering gas to PG&E in the event PG&E fails to satisfy timely Conoco's demand for additional security and Conoco has reasonable grounds for insecurity of payment.

PG&E neither admits nor denies the reasonableness of Conoco's demand for additional security but does desire to induce Conoco to continue to deliver gas to PG&E pursuant to existing or future Transactions.

Conoco is willing to continue deliveries of Gas to PG&E if certain amendments are made to the Contract to provide adequate assurance of future performances of PG&E's obligations under the Contract. Accordingly, Conoco and PG&E have agreed to amend the Contract as set forth below.

Amendments

1. Section 12.1 of the Contract shall be deleted in its entirety.

2. Section 12.2 of the Contract will be replaced by the following new Section 12.2:

   12.2.1 By 5:00 p.m. Eastern Standard Time on each Thursday of the Month, Conoco shall provide to PG&E by e-mail or fax, as provided below, a payment schedule for the estimated amount due for Gas intended to be Scheduled and delivered by each party pursuant to all effective Transaction Confirmations during the following week (seven days beginning on Tuesday), together with the True Up Amount, as defined below, if applicable ("Payment Schedule"). If Thursday is not a Business Day, Conoco shall provide the Payment Schedule on the prior Business Day.

   12.2.2 On each Monday of the Month, Buyer shall remit to Seller the estimated amount due for Gas intended to be Scheduled and delivered by Seller pursuant to the Payment Schedule. If Monday is not a Business Day, Buyer shall remit payment on the next Business Day. Such payment, if due Conoco, shall be made by wire transfer to the following address:

12.2.5 If Buyer fails to remit the full amount payable by it when due, interest on the unpaid portion shall accrue at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by *The Wall Street Journal*, plus two percent per annum, from the date due until the date of payment; or (ii) the maximum applicable lawful interest rate. If PG&E, in good faith, disputes the amount of the Payment Schedule or any part thereof, the paying party will pay to the other party such amount as it concedes to be correct; provided, however, if PG&E disputes the amount due, PG&E must provide supporting documentation acceptable in industry practice from its Transporter to verify the amount paid. Based on the ultimate determination of the disputed amount, the appropriate party will pay the other party that amount with interest as determined above immediately upon such determination.

3. The provisions of the ~~new Section 12.2 as set out in~~ this Amendment will be effective beginning January 12, 2001 and will continue in effect until the earlier of (i) March 31, 2001 or (ii) such date as shall be determined by mutual written agreement of the parties. Upon the termination of this Amendment, the original terms of the Contract shall govern.

4. In addition to the payment for gas to be delivered during the week beginning January 15, 2001, as provided in Section 12.2.1 above, PG&E will also remit payment on January 15, 2001 for gas delivered by Conoco under all effective Transactions from January 1, 2001 through January 14, 2001.

5. Except as expressly modified by this Amendment, the Contract and all effective Transaction Confirmations remain in full force and effect.

As evidence of the parties' agreement to the foregoing provisions, appropriated representatives of the parties have executed this Amendment in the spaces provided below.

Conoco Inc.

By: _____
Name: Jerry Wheatley
Title: Vice President, West Region
Natural Gas & Gas Products

PG&E Energy Trading-Gas Corporation

By: _____
Name: Lyndell E. Maddox
Title: President

PG&E National Energy Group

7500 Old Georgetown Road
Bethesda, MD 20814-6161

301 280 6800
301 280 6880
[illegible]@pgetn.com

March 12, 2001

Conoco Inc.
600 North Dairy Ashford, CH1081
(77079)
P.O. Box 2197, Ste CH-1081
Houston, TX 77252
Attn: Mr. Jerry L. Wheatley

Re: Extension of Amendment dated January 12, 2001, to Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995, between Conoco Inc. and PG&E Energy Trading – Gas Corporation (as successor in interest to Energy Source, Inc.)

Ladies and Gentlemen:

Conoco Inc. ("Conoco") and **PG&E Energy Trading - Gas Corporation, as successor in interest to Energy Source, Inc.** ("PG&E"), are the parties to the above referenced Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995 (the "Contract") and amendment to the Contract, dated January 12, 2001 (the "Amendment"). This letter amendment to the Amendment is made effective as of this 12th day of March, 2001.

Conoco and PG&E mutually desire to amend to extend the term of the Amendment. In consideration of the mutual premises contained herein and for other good and valuable consideration, Section 3 of the Amendment shall be deleted in its entirety and replaced as follows:

> "The provisions of this Amendment will be effective beginning January 12, 2001 and will continue in effect until the earlier of (i) October 31, 2001 or (ii) such date as shall be determined by mutual written agreement of the parties. Upon the termination of this Amendment, the original terms of the Contract shall govern."

Except as set forth in this letter amendment, the terms of the Amendment are ratified and confirmed in all respects.

Please sign in the space indicated below and return the fully executed letter amendment to Jennifer Costa, PG&E Energy Trading - Gas Corporation, 7500 Old Georgetown Road, Bethesda, Maryland 20814.

PG&E ENERGY TRADING - GAS CORPORATION

By: _____
Sarah M. Barpoulis
Senior Vice President

Agreed and Accepted:

CONOCO INC.

By: _____
Name: Jerry L. Wheatley
Title: Director - West CU.

PG&E National Energy Group and any other company referenced herein which uses the PG&E name or logo are not the same company as Pacific Gas and Electric Company, the California utility. These companies are not regulated by the California Public Utilities Commission.

Jerry L. Wheatley
Vice President West Region
Conoco Gas & Power Marketing
A division of Conoco Inc.

Conoco Inc.
P. O. Box 2197 - CH 1081
600 North Dairy Ashford
Houston, TX 77252
(281) 293-6892
(281) 293-3525 (fax)

October 2, 2001

PG&E Energy Trading - Gas Corporation
7500 Old Georgetown Road
Bethesda, MD 20814

Attn: Jennifer Costa

Re: Extension of Amendment dated January 12, 2001, to Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995, between Conoco Inc. and PG&E Energy Trading - Gas Corporation (as successor in interest to Energy Source, Inc.)

Ladies and Gentlemen:

Conoco Inc. ("Conoco") and PG&E Energy Trading - Gas Corporation, as successor in interest to Energy Source, Inc. ("PG&E"), are the parties to the above referenced Base Contract for the Sale and Purchase of Natural Gas, dated July 1, 1995 (the Contract") and amendment to the Contract, dated January 12, 2001 (the "Amendment"). This letter amendment to the Amendment is made effective as of this October 1, 2001.

Conoco and PG&E mutually desire to amend to extend the term of the Amendment in consideration of the mutual premises contained herein and for other good and valuable consideration, Section 3 of the Amendment shall be deleted in its entirety and replaced as follows:

"The provisions of this Amendment will be effective beginning January 12, 2001 and will continue in effect until the earlier of (i) October 31, 2002 or (ii) such date as shall be determined by mutual written agreement of the parties. Upon the termination of this Amendment, the original terms of the Contract shall govern"

Except as set forth in this letter amendment, the terms of the Amendment are ratified and confirmed in all respects.

Please sign in the space indicated below and return one fully executed letter amendment to the address indicated above.

Conoco Inc.

By. R L Wheatley
Jerry L. Wheatley
Vice President - West Region

Agreed and Accepted:

PG&E Energy Trading - Gas Corporation

By. _____

PG&E ENERGY TRADING-POWER, L.P.

By:_____

Name:
Title

Date:_____

SRW COGENERATION LIMITED PARTNERSHIP

BY CONOCO GLOBAL POWER DEVELOPMENTS-SABINE INC.,
ITS GENERAL PARTNER

By: [signature]

Name: President
Title: J. Mine Stick

Date: May 6, 2002

BY NRG SABINE RIVER WORKS GP LLC,
ITS GENERAL PARNTER

By:_____

Name:
Title:

Date:_____

PG&E ENERGY TRADING-POWER, L.P.

By:_____
Name:
Title

Date:_____

SRW COGENERATION LIMITED PARTNERSHIP

BY CONOCO GLOBAL POWER DEVELOPMENTS-SABINE INC.,
ITS GENERAL PARTNER

By:_____
Name: J Lum Stice
Title: President

Date:_____

BY NRG SABINE RIVER WORKS GP LLC,
ITS GENERAL PARNTER

By:_____
Name: ALAN D Williams
Title: VICE PRESIDENT

Date: 5/6/02

Amendment to
Base Contract for Sale and Purchase of Natural Gas

This Amendment is entered into effective May 1, 2002 to amend that certain Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995, ("Contract") between Conoco Inc. and PG&E Energy Trading - Gas Corporation, successor in interest to Energy Source, Inc.

1. The list of types of transactions in Section 1.2 of ARTICLE I PURPOSE AND PROCEDURES of the Contract is deleted in its entirety and replaced with the following new list of types of transactions:

(i) Interruptible (I)
(ii) Firm (PF), or
(iii) Exchange for Physicals (EFP)

2. Section 3.1 of ARTICLE III PERFORMANCE OBLIGATION is amended by deleting the definitions of "Priority Interruptible" and "Secondary Firm" in their entirety, changing the term "Primary Firm" to "Firm" in Section 3.1.4 and renumbering the definition of "Firm" as Section 3.1.2, and renumbering the definition of "EFP" as Section 3.1.3.

3. ARTICLE IV DEFAULTS AND REMEDIES of the Contract is amended by adding the following new sections:

> 4.4 Notwithstanding any other provisions to the contrary, the non-defaulting party, at its sole option and without prior notice to the defaulting party, may setoff (i) any liquidation payment owed by the defaulting party to the non-defaulting party against any margin or other collateral held by it in connection with any credit support obligation relating to the Contract; or (ii) any liquidation payment owed by the non-defaulting party to the defaulting party against any amount(s) payable by the defaulting party to the non-defaulting party under any other agreement or arrangement between the parties. For purposes of this section only, the term "party" as relating to PG&E Energy Trading - Gas Corporation, includes PG&E Energy Trading – Power, L.P.

4. ARTICLE XII BILLING, PAYMENT AND AUDIT of the Contract is amended by adding a new Section 12.6 as follows:

> 12.6 The parties shall net all undisputed amounts due and owing, and/or past due, to one another arising under the Contract such that the party owing the greater amount shall make a single payment of the net amount to the other party in accordance with Section 12.2; provided that no payment required to be made pursuant to the terms of the Credit Support Annex shall be subject to netting under this Section.

5. The Contract is amended by adding the Credit Support Annex attached to this Amendment.

6. Except as expressly modified by this Amendment, the Contract and all effective Transaction Confirmations remain in full force and effect.

As evidence of the parties' agreement to the foregoing provisions, appropriated representatives of the parties have executed this Amendment in the spaces provided below.

Conoco Inc.	PG&E Energy Trading - Gas Corporation
By:_____	By: Lyndell E. Maddox
Name: Rex W. Bennett	Name: Lyndell E. Maddox
Title: Manager, Gas & Power Marketing	Title: President & CEO

003523

Amendment to
Base Contract for Sale and Purchase of Natural Gas

This Amendment is entered into effective May 1, 2002 to amend that certain Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995, ("Contract") between Conoco Inc. and PG&E Energy Trading - Gas Corporation, successor in interest to Energy Source, Inc.

1. The list of types of transactions in Section 1.2 of ARTICLE I PURPOSE AND PROCEDURES of the Contract is deleted in its entirety and replaced with the following new list of types of transactions:

(i) Interruptible (I)
(ii) Firm (PF), or
(iii) Exchange for Physicals (EFP)

2. Section 3.1 of ARTICLE III PERFORMANCE OBLIGATION is amended by deleting the definitions of "Priority Interruptible" and "Secondary Firm" in their entirety, changing the term "Primary Firm" to "Firm" in Section 3.1.4 and renumbering the definition of "Firm" as Section 3.1.2, and renumbering the definition of "EFP" as Section 3.1.3.

3. ARTICLE IV DEFAULTS AND REMEDIES of the Contract is amended by adding the following new sections:

> 4.4 Notwithstanding any other provisions to the contrary, the non-defaulting party, at its sole option and without prior notice to the defaulting party, may setoff (i) any liquidation payment owed by the defaulting party to the non-defaulting party against any margin or other collateral held by it in connection with any credit support obligation relating to the Contract; or (ii) any liquidation payment owed by the non-defaulting party to the defaulting party against any amount(s) payable by the defaulting party to the non-defaulting party under any other agreement or arrangement between the parties. For purposes of this section only, the term "party" as relating to PG&E Energy Trading - Gas Corporation, includes PG&E Energy Trading – Power, L.P.

4. ARTICLE XII BILLING, PAYMENT AND AUDIT of the Contract is amended by adding a new Section 12.6 as follows:

> 12.6 The parties shall net all undisputed amounts due and owing, and/or past due, to one another arising under the Contract such that the party owing the greater amount shall make a single payment of the net amount to the other party in accordance with Section 12.2; provided that no payment required to be made pursuant to the terms of the Credit Support Annex shall be subject to netting under this Section.

5. The Contract is amended by adding the Credit Support Annex attached to this Amendment.

6. Except as expressly modified by this Amendment, the Contract and all effective Transaction Confirmations remain in full force and effect.

As evidence of the parties' agreement to the foregoing provisions, appropriated representatives of the parties have executed this Amendment in the spaces provided below.

Conoco Inc.	PG&E Energy Trading - Gas Corporation
By:	By:
Name: Rex W. Bennett	Name:
Title: Manager, Gas & Power Marketing	Title:

CREDIT SUPPORT ANNEX
TO
BASE CONTRACT FOR SALE AND PURCHASE OF NATURAL GAS

This Credit Support Annex to the Base Contract for Sale and Purchase of Natural Gas (this "***Credit Support Annex***"), dated effective April 1, 2002, supplements and amends the Base Contract for Sale and Purchase of Natural Gas dated July 1, 1995 (the "**Contract**") between PG&E Energy Trading – Gas Corporation (**"PGET"**), as successor to Energy Source, Inc. and Conoco Inc. (**"Conoco"**). Capitalized terms used in this Credit Support Annex but not defined herein shall have the meanings given such terms in the Contract.

Paragraph 1. Definitions.

For purposes of this Credit Support Annex, the following terms have the respective definitions set forth below. References to Paragraphs are to this Credit Support Annex unless otherwise expressly stated.

"Aggregate Termination Payment" means a payment determined by the non-defaulting party pursuant to Section 4.3.1 of the Contract.

"***Bankrupt***" means any entity, if such entity (i) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (ii) becomes insolvent or is unable to pay its debts (however evidenced) or fails or admits in writing its inability generally to pay its debts as they become due; (iii) makes a general assignment, arrangement, or composition with or for the benefit of its creditors; (iv) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation; (v) passes a resolution for its winding-up, official management, or liquidation (other than pursuant to a consolidation, amalgamation, or merger); (vi) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian, or other similar official for it or for all or substantially all of its assets; (vii) has a secured party take possession of all or substantially all of its assets or has a distress, execution, attachment, sequestration, or other legal process levied, enforced, or sued on or against all or substantially all of its assets; (viii) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (i) through (vii) (inclusive); or (ix) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"***Business Day***" has the meaning attributed to it in Section 2.2 of the Contract.

"***Calculation Date***" means any Business Day on which a party chooses or is requested by any other party to make the determinations referred to in Paragraphs 2, 3, 4 and 7 of this Credit Support Annex.

"Care of Collateral" means the Secured Party will exercise reasonable care to assure the safe custody of all Collateral to the extent required by applicable law, and, in any event, the Secured Party will be deemed to have exercised reasonable care if it exercises at least the same degree of care as it would exercise with respect to its own

property of like kind; provided that the Secured Party will hold all Cash Collateral Transferred to it hereunder in one or more accounts maintained by the Secured Party with a Qualified Institution.

"***Collateral***" means collateral pledged or transferred by PGET or Conoco ("Pledging Party"), as applicable, (including, without limitation, any such collateral Transferred by a Pledging Party's Guarantor on behalf of any such party) to secure payment or performance of any of its Obligations to the other party ("Secured Party").

"**Cash**" means lawful currency of the United States of America.

"***Collateral Deadline***" shall have the meaning attributed to it in Paragraph 3.

"***Collateral Requirement***" shall have the meaning attributed to it in Paragraph 2.2.

"***Credit Rating***" means the respective ratings then assigned, on any date of determination, to PGET's Guarantor with respect to PGET or to Conoco Inc. (or the Conoco Phillips merged successor) with respect to Conoco, for unsecured, senior long-term debt obligations (in either case not supported by third party credit enhancement) by S&P, Moody's or the other specified rating agency or agencies.

"***Event of Default***" means the events listed in the second sentence of Section 15.1 of the Contract.

"***Exposure Threshold***" means $20,000,000 with respect to Conoco and the amount, not to exceed $10,000,000, of any Guaranty provided by PGET's Guarantor with respect to PGET, provided that in the case of a Material Adverse Change with respect to a party or a party's Guarantor, that party's Exposure Threshold shall be zero.

"**Guarantor**" means PG&E National Energy Group, Inc. with respect to PGET, or any additional, substitute or replacement guarantor that is reasonably acceptable to Conoco or that is permitted under the terms of the Guaranty.

"**Guaranty**" shall mean a guaranty of payment of a party's obligations by a guarantor acceptable to the other party in form substantially similar to the form attached as Schedule 2.

"Guaranty Default" shall mean with respect to an outstanding Guaranty, the occurrence of any of the following events: (i) Guarantor shall fail to comply with or perform its obligations under such Guaranty after the lapse of any applicable grace period; (ii) Guarantor shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, such Guaranty; (iii) such Guaranty shall expire or terminate, or shall fail or cease to be in full force and effect at any time during the term of any outstanding transaction; (iv) the Guarantor shall fail to cause the renewal or replacement Guaranty to be Transferred to the Secured Party at the address specified in the Contract at least 30 days prior to the expiration of such Guaranty; provided, however, that no Guaranty Default shall occur in any event with respect to a Guaranty after the time such Guaranty is required to be cancelled or returned to the Pledging Party in accordance with the terms of this Annex.

"***Letter of Credit***" means an irrevocable, transferable, standby letter of credit, issued by a Qualified Institution substantially in the form set forth in Schedule 1 attached hereto and incorporated herein by reference, with such changes to the terms in that form as the Qualified Institution may require and as may be acceptable to the beneficiary thereof.

"***Letter of Credit Default***" means with respect to an outstanding Letter of Credit, the occurrence of any of the following events: (a) the issuer of such Letter of Credit shall fail to maintain a Credit Rating of at least (i) "A" by S&P or "A2" by Moody's, if such issuer is rated by both S&P and Moody's, (ii) "A" by S&P, if such issuer is rated only by S&P, or (iii) "A2" by Moody's, if such issuer is rated only by Moody's; (b) the issuer of the Letter of Credit shall fail to comply with or perform its obligations under such Letter of Credit; (c) the issuer of such Letter of Credit shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, such Letter of Credit; (d) such Letter of Credit shall expire or terminate, or shall fail or cease to be in full force and effect at any time during the term of the Agreement, in any such case without replacement; or (e) the issuer of such Letter of Credit shall become Bankrupt; provided, no Letter of Credit Default shall occur in any event with respect to a Letter of Credit after the time such Letter of Credit is required to be canceled or returned to a party or the issuer thereof in accordance with the terms of this Collateral Annex.

"Material Adverse Change" means (i) with respect to Conoco, Conoco Inc. or the merged Conoco-Phillips successor to Conoco Inc. shall have a Credit Rating rated by S&P below "BBB-" or by Moody's below "Baa3", or (ii) with respect to PGET, a Guarantor Default shall have occurred, or Guarantor shall have a Credit Rating rated by S&P below "BBB-, or by Moody's below "Baa3".

"Minimum Transfer Amount" means $200,000.

"Moody's" means Moody's Investors Service, Inc. or its successor.

"Notification Time" means 12:00 p.m. (noon) New York Time on any Business Day.

"***Pledging Party***" shall have the meaning attributed to it in Paragraph 2.1."

Qualified Institution" means a commercial bank or trust company organized under the laws of the United States or a political subdivision thereof or a foreign bank with a United States branch office, and in either case, with total assets of at least $10,000,000,000 and whose general long-term unsubordinated unsecured debt is at such time rated at least "A" by S&P and at least "A2" by Moody's; in the event such a commercial bank is rated by only one of S&P or Moody's, eligibility will be based on the available rating.

"***Rounding Amount***" means $200,000.

"***S&P***" means the Standard & Poor's Rating Group (a division of The McGraw-Hill Companies, Inc. or its successor) or its successor.

"***Secured Party***" shall have the meaning attributed to it in Paragraph 2.2.

"***Transfer***" means, with respect to any Collateral, in accordance with the instructions of the Secured Party entitled thereto, and in the case of a Letter of Credit or a Guaranty, delivery of the Letter of Credit or Guaranty or an amendment thereto to the recipient.

"***Value***" means (i) with respect to any Letter of Credit, the stated amount then available under the Letter of Credit to be unconditionally withdrawn, unless a Letter of Credit Default shall apply with respect to such Letter of Credit or 60 or fewer days remain prior to expiration of such Letter of Credit, in which case the Value with respect of such Letter of Credit shall be zero.

Paragraph 2. Calculations of the Collateral Requirement.

2.1. On any Calculation Date, either party may calculate the Aggregate Termination Payment that would be owed or owing if an Early Termination Date were capable of being declared effective as of such date. The party that would owe such Aggregate Termination Payment to the other party shall be referred to as the "***Pledging Party***" and the party that would be owed such Aggregate Termination Payment by the other party shall be referred to as the "***Secured Party***."

2.2. The "***Collateral Requirement***" for Pledging Party means the determination by Secured Party in good faith and in a commercially reasonable manner of (i) the Aggregate Termination Payment minus (ii) the sum of:

2.2.1. Pledging Party's Exposure Threshold; plus

2.2.2. The Value of each Letter of Credit issued for the account of Pledging Party for the benefit of Secured Party; plus

2.2.3. Cash Collateral held by the Secured Party for the account of Pledging Party.

Paragraph 3. Delivery of Eligible Collateral.

On any Calculation Date on which (a) no Event of Default has occurred and is continuing with respect to Secured Party, (b) no Early Termination Date has been designated as a result of an Event of Default with respect to Secured Party, and (c) Pledging Party's Collateral Requirement equals or exceeds its Minimum Transfer Amount, then Secured Party may demand that Pledging Party Transfer to Secured Party, and Pledging Party shall, after receiving such notice from Secured Party, Transfer, or cause to be Transferred to Secured Party, Eligible Collateral in the form of Cash or a Letter of Credit (or an amendment to any existing Letters of Credit in the possession of Secured Party) for the benefit of Secured Party, in an amount and with a Value at least equal to Pledging Party's Collateral Requirement. The amount of any Eligible Collateral required to be Transferred hereunder shall be rounded up to the nearest integral multiple of the Rounding Amount. Unless otherwise agreed in writing by the parties, the Collateral Requirement demanded of Pledging Party on or before the Notification Time on a Business Day shall be Transferred by the close of business on the second following Business Day, and if demanded after the Notification Time on a Business Day shall be Transferred by the close of business on the third following Business Day (such deadline referred to as the "***Collateral Deadline***"). Any Letter of Credit shall be delivered to such address as Secured Party shall specify.

Paragraph 4. Reduction and Substitution of Collateral.

On any Calculation Date (but no more frequently than weekly), Pledging Party may request a reduction in the amount of Collateral previously Transferred by Pledging Party for the benefit of Secured Party; provided, after the requested reduction in Collateral, (i) Pledging Party shall then have, on the date such Collateral is reduced, a Collateral Requirement of zero; (ii) no Event of Default with respect to Pledging Party shall have occurred and be continuing; and (iii) no Early Termination Date shall have been designated as a result of an Event of Default with respect to Pledging Party. A permitted reduction in a Letter of Credit may be effected by the reduction of the amount of an outstanding Letter of Credit previously issued for the benefit of Secured Party or the return of such Letter of Credit to the Pledging Party or the issuer thereof. In all cases, the cost and expense of reducing a Letter of Credit shall be borne by Pledging Party. If there is a permitted reduction in the amount of an outstanding Letter of Credit previously issued for the benefit of Secured Party, Secured Party shall not unreasonably withhold its consent to a commensurate reduction in the amount of such Letter of Credit and shall promptly take such action as is reasonably necessary to effectuate such reduction.

Paragraph 5. Administration of Letters of Credit.

A Letter of Credit shall be subject to the following provisions.

5.1. Unless otherwise agreed to in writing by the parties, each Letter of Credit shall be maintained for the benefit of Secured Party. Pledging Party shall (i) renew or cause the renewal of each outstanding Letter of Credit on a timely basis as provided in the relevant Letter of Credit, and (ii) if the bank that issued an outstanding Letter of Credit has indicated its intent not to renew such Letter of Credit, provide a substitute Letter of Credit at least 30 days prior to the expiration of the outstanding Letter of Credit.

5.2. Pledging Party may increase the amount of an outstanding Letter of Credit or establish one or more additional Letters of Credit.

5.3. Upon the occurrence of a Letter of Credit Default, Pledging Party agrees to deliver to Secured Party a substitute Letter of Credit on or before the second Business Day after the occurrence thereof (or the fifth Business Day after the occurrence thereof if only clause (a) under the definition of Letter of Credit Default applies).

5.4. Upon or at any time after the occurrence of an Event of Default with respect to Pledging Party, an Early Termination Date has been designated as a result of such event with respect to Pledging Party, and the Pledging Party fails to pay the net amount due within one Business Day following receipt of notice of the liquidation, then Secured Party may draw up to the entire available balance of any outstanding Letter of Credit upon submission to the bank issuing such Letter of Credit of one or more certificates specifying that such events have occurred. Cash proceeds received from drawing upon the Letter of Credit (to the extent such Cash proceeds are not used to satisfy the Pledging Party's Obligations) shall be deemed security for Pledging Party's Obligations to Secured Party and Secured Party shall have the rights, remedies and obligations set forth in this Agreement with respect to such Cash proceeds.

5.5. Upon or at any time after the occurrence of the failure of Pledging Party to make all payments due and owing to the Secured Party in accordance with the terms of the

Contract (including the lapse of any grace period, if any, after required notice, if any), then Secured Party may draw on any outstanding Letter of Credit in an amount equal to the amount owing to it upon submission to the bank issuing such Letter of Credit of one or more certificates specifying that such failure to pay has occurred and the amount owing.

5.6. In all cases, notwithstanding Secured Party's receipt of Cash under any Letter of Credit, Pledging Party shall remain liable for any failure to Transfer sufficient Letters of Credit or for any amounts owing to Secured Party and remaining unpaid after the application of the amounts so drawn by Secured Party.

Paragraph 6. Disputed Calculations.

6.1. If the Pledging Party shall dispute the amount of any Collateral Requirement, then it shall (i) notify the Secured Party of the existence and nature of the dispute not later than the Collateral Deadline, and (ii) provide Collateral in an amount equal to Pledging Party's own estimate, made in good faith and in a commercially reasonable manner, of its Collateral Requirement by the Collateral Deadline. If the Pledging Party requests a reduction in Collateral held by the Secured Party, and the Secured Party disputes the amount of reduction in Collateral requested by the Pledging Party, then the Secured Party shall (i) notify the Pledging Party of the existence and nature of the dispute not later than the Notification Time on the first Business Day following the date that the demand to reduce such Collateral is made by the Pledging Party, and (ii) effect the reduction of Collateral to or for the benefit of Pledging Party in an amount equal to Secured Party's own estimate, made in good faith and in a commercially reasonable manner, of Pledging Party's Collateral Requirement by the Collateral Deadline.

6.2. In all such cases, both parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the parties have not been able to resolve their dispute on or before the second Business Day following the date that the Transfer was due, then the Secured Party shall recalculate the Aggregate Termination Payment by requesting quotations from two Reference Market Makers for the purpose of recalculating the settlement payment due for each transaction in respect of which the parties disagree (taking the arithmetic average of those obtained to obtain the average settlement payment). If at least two Reference Market Makers are not available to provide such quotes for any transaction, the Secured Party's calculation for such transaction shall be controlling. The Secured Party shall forthwith inform the Pledging Party of the results of such recalculation in reasonable detail. Collateral shall thereupon be provided, returned, or reduced, if necessary, on the next Business Day in accordance with the results of such recalculation.

Paragraph 7. Covenants; Representations and Warranties; Miscellaneous.

7.1. On each day on which Collateral is held by Secured Party under the Contract, including, without limitation, this Collateral Annex, Pledging Party hereby represents and warrants that:

7.1.1. Pledging Party has good title to and is the sole owner of such Collateral, and the execution, delivery and performance of the covenants and agreements of the Contract, including, without limitation, this Collateral Annex, do not result in

the creation or imposition of any lien or security interest upon any of its assets or properties, including, without limitation, the Collateral, other than the security interests and liens created under the Agreement;

7.1.2. Upon the Transfer of Collateral by Pledging Party to Secured Party, Secured Party shall have a valid and perfected first priority continuing security interest therein, free of any liens, claims or encumbrances, except those liens, security interests, claims or encumbrances arising by operation of law that are given priority over a perfected security interest;

7.1.3. Pledging Party is not and will not become a party to or otherwise be bound by any agreement, other than the Contract, which restricts in any manner the rights of any present or future holder of any of the Collateral with respect hereto.

7.2. Secured Party shall exercise reasonable Care of Collateral. Interest on Cash Collateral shall be paid by the Secured Party to the Pledging Party on the later of the third Business Day following Secured Party's receipt of Pledging Party's invoice or the fifth Business Day of the following month. Interest will accrue at the "overnight fed funds floating rate".

7.3. The Contract, including, without limitation, this Collateral Annex, has been and is made solely for the benefit of the parties and their permitted successors and assigns, and no other person, partnership, association, corporation or other entity shall acquire or have any right under or by virtue hereof.

7.4. Pledging Party shall pay on request and indemnify Secured Party for all reasonable expenses (including without limitation, court costs and reasonable fees and disbursements of counsel) incurred by it in connection with the enforcement of, or suing for or collecting any amounts payable by it under, the Contract, including, without limitation, this Collateral Annex.

SCHEDULE 1 TO COLLATERAL ANNEX

IRREVOCABLE TRANSFERABLE STANDBY LETTER OF CREDIT FORMAT
DATE OF ISSUANCE: _____

[Address]

Re: Credit No. _____

We hereby establish our Irrevocable Transferable Standby Letter of Credit in your favor for the account of [Pledging Party], for the aggregate amount not exceeding _____ United States Dollars ($_____), available to you at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of one or more of the following statements, dated and signed by [Secured Party]:

Either:

(a) An "Early Termination Date" (as defined in the Base Contract for Sale and Purchase of Natural Gas dated as of July 1, 1995 between Conoco Inc. and PG&E Energy Trading – Gas Corporation, as successor to Energy Source, Inc., as the same may be amended (the "Master Agreement")) has been designated as a result of an event of default with respect to Pledging Party under the Master Agreement, Pledging Party has failed to pay the amount due, and no event of default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire available balance of the Letter of Credit"; and/or

(b) Pledging Party has failed to make all payments due and owing to the beneficiary of this Letter of Credit pursuant to the requirements of the Master Agreement (as defined in the Master Agreement). Wherefore, the undersigned does hereby demand payment of $_____."

The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through the Issuing Bank referencing this Letter of Credit No. ____. Partial and multiple drawings are permitted hereunder.

We hereby agree with you that documents drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, including but not limited to Articles 13(b) and 17 of the UCP, in which case the terms of this Letter of Credit shall govern.

With respect to Article 13(b) of the UCP, the Issuing Bank shall have a reasonable amount of time, not to exceed three (3) banking days following the date of its receipt of documents from the beneficiary, to examine the documents and determine whether to take up or refuse the documents and to inform the beneficiary accordingly.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date 30 calendar days after the place for presentation reopens for business.

This Letter of Credit is transferable, and we hereby consent to such transfer, but otherwise may not be amended, changed or modified without the express written consent of the beneficiary, the Issuing Bank and Pledging Party.

GUARANTEE

GUARANTEE dated as of May 1, 2002 by **PG&E National Energy Group, Inc.**, a Delaware corporation (the "Guarantor"), in favor of Conoco Inc. (hereinafter called the "Guaranteed Party").

WHEREAS, Guaranteed Party and **PG&E Energy Trading – Gas Corporation**, a California corporation (the "Affiliate"), an affiliate of Guarantor, have entered into, or may enter into, one or more agreements for physical natural gas transactions (collectively, the "Agreements").

NOW, THEREFORE, in consideration of Guaranteed Party entering into the Agreements with Affiliate, Guarantor agrees as follows:

1. Guarantee. Subject to the terms herein, Guarantor unconditionally guarantees to the Guaranteed Party, its successors and assigns, the prompt payment when due (after giving effect to any applicable notice requirement or grace period) of all amounts payable by Affiliate under the Agreements and any amendments thereto (collectively, the "Obligations"). This is a guarantee of payment and not of collection. If Affiliate fails to pay any Obligation, Guarantor will pay such Obligation directly for Guaranteed Party's benefit promptly upon Guaranteed Party's demand therefor in accordance with the provisions hereof.

2. Extent of Liability & Term. Guarantor's liability for Obligations or other costs and expenses under this Guarantee is limited in the aggregate to US$10,000,000 (the "Guarantee Cap"). Guarantor will not be obligated to monitor the amount of Affiliate's Obligations to Guaranteed Party, and Guaranteed Party will bear the risk that the aggregate amount of the Obligations exceeds the Guarantee Cap. Except as the same comprise Obligations under the terms of the Agreements, Guarantor shall not be liable hereunder for special, consequential, exemplary, tort or other damages, costs or attorneys' fees (other than reasonable costs and reasonable attorneys' fees incurred by Guaranteed Party in enforcing this Guarantee). This Guarantee shall become effective as of the date hereof and shall remain in full force and effect until terminated by written notice of termination provided to Guaranteed Party by Guarantor. Such notice may be given by facsimile and shall be deemed effective as of noon, Eastern Time, on the fifth (5th) business day following receipt of notice by Guaranteed Party. Except as set forth in Section 8 below, this Guarantee may be terminated only with respect to Obligations arising from transactions entered into under the Agreements after the termination date of the Guarantee, and shall continue in full force and effect with regard to all Obligations arising from transactions entered into under the Agreements prior to such termination date, and all extensions and renewals thereof entered into prior to the effective date of termination, until full payment of such Obligations to Guaranteed Party.

3. Nature of Guarantee. The Guarantor's obligations hereunder with respect to any Obligation shall not be affected by the existence, validity, enforceability, perfection, or extent of any collateral for such Obligations. The Guaranteed Party shall not be obligated to file any claim relating to the Obligations owing to it if Affiliate becomes subject to a bankruptcy, reorganization or similar proceeding and the failure of the Guaranteed Party to so file shall not affect Guarantor's obligations hereunder. If any payment to the Guaranteed Party with respect to any Obligations is rescinded or must

otherwise be returned for any reason whatsoever, the Guarantor shall remain liable hereunder with respect to such Obligations as if such payment had not been made. Guarantor reserves the right to assert defenses that Affiliate may have under the Agreements to payment of any Obligation other than defenses arising from the bankruptcy, insolvency, incapacity, liquidation or dissolution Affiliate.

4. Demands and Notice. If Affiliate fails to pay any Obligations, Guaranteed Party shall notify Affiliate in writing and demand that payment be made by Affiliate. At the same time, Guaranteed Party shall provide a copy of such notice to Guarantor at the address set forth below. If Affiliate's failure to pay continues for a period of five (5) business days after the date of Guaranteed Party's notice to Affiliate, and Guaranteed Party elects to exercise its rights under this Guarantee, Guaranteed Party shall make a written demand on Guarantor (a "Payment Demand"). A Payment Demand shall identify the Agreement under which demand is being made and identify the amount and the basis of the demand and shall contain a statement that Guaranteed Party is calling upon Guarantor under this Guarantee. A Payment Demand conforming to the foregoing requirements shall be sufficient notice to Guarantor to pay under this Guarantee. Notices under this Guarantee shall be deemed received if sent to the address specified below: (i) on the day received if sent by overnight express delivery, (ii) on the next business day if served by facsimile transmission when sender has machine confirmation that facsimile was transmitted to the correct fax number listed below, (iii) four business days after mailing if sent by certified, first class mail, return receipt requested. Any party may change its address to which notice is to be given hereunder by providing notice of same in accordance with this Section 4.

To Guarantor: PG&E National Energy Group, Inc.
7500 Old Georgetown Road
Bethesda, Maryland 20814
Attn: Chief Financial Officer
fax: 301.280.5700

To Affiliate: PG&E Energy Trading – Gas Corporation
7500 Old Georgetown Road
Bethesda, Maryland 20814
Attn: Senior Vice President
fax: 301.280.6601

To Guaranteed Party: Conoco Inc.
Suite CH 1081
600 North Dairy Ashford (77079-1175)
P. O. Box 2197
Houston, Texas 77252-2197
Attn: Manager Gas & Power Marketing
fax: 281.293.

5. Consents, Waivers and Renewals. The Guaranteed Party and Affiliate may mutually agree to modify the Agreements, extend the payment or otherwise modify the terms of payment of any of the Obligations, without in any way impairing or affecting this Guarantee. The Guaranteed Party may resort to Guarantor for payment of any of the Obligations, whether or not Guaranteed Party shall have resorted to any collateral security, or shall have proceeded against any other obligor principally or secondarily

obligated with respect to any of the Obligations. Guarantor hereby waives notice of acceptance of this Guarantee, and also presentment, protest and notice of protest or dishonor of any evidences of indebtedness hereby guaranteed.

6. Subrogation. Upon final payment of all the Obligations owing to the Guaranteed Party, Guarantor shall be subrogated to the rights of the Guaranteed Party against Affiliate, and the Guaranteed Party agrees to take at Guarantor's expense such steps as Guarantor may reasonably request to implement such subrogation.

7. Representations and Warranties. Guarantor hereby represents and warrants that (i) it is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) the execution, delivery and performance by Guarantor of this Guarantee are within its corporate powers, have been duly authorized by all necessary corporate action and do not violate Guarantor's charter or by-laws or any law, order or contractual restriction binding on Guarantor, and (iii) this Guarantee constitutes Guarantor's legal, valid and binding obligation, enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights in general and general principles of equity).

8. Substitute Credit Support. Notwithstanding anything to the contrary set forth herein, the following provisions shall apply:

a. At any time prior to the termination of Guarantor's obligations under this Guarantee, Guarantor may deliver or cause to be delivered to Guaranteed Party Substitute Credit Support with a liability limit at least equal to the limit set forth in Section 2 hereof, in substitution for this Guarantee.

b. Upon delivery of Substitute Credit Support, Guarantor shall be relieved of any liability under this Guarantee. Within ten (10) days of the receipt of such Substitute Credit Support, Guaranteed Party shall return to Guarantor this Guarantee together with any certificate or other documentation that may be required to effect the cancellation of this Guarantee.

c. For purposes of this Guarantee, Substitute Credit Support shall mean any of the following: (i) an irrevocable letter of credit issued to Guaranteed Party in a form satisfactory to Guaranteed Party in its reasonable judgment and from a bank or trust company whose unsecured senior long term debt is rated at least "A" by S&P and "A2" by Moody's or (ii) a guarantee in substantially the same form as this Guarantee issued by any affiliate of Guarantor acceptable to Guaranteed Party, whose agreement to such new guarantor shall not be unreasonably withheld, at such time as such new guarantor has obtained a credit rating on its senior unsecured long term debt of at least "BBB-" by S&P or "Baa3" by Moody's.

9. Miscellaneous. No provision of this Guarantee may be amended or waived except by a written instrument executed by Guarantor and Guaranteed Party. This Guarantee shall bind and benefit the successors and assigns of Guarantor and Guaranteed Party. This Guarantee shall not be deemed to benefit any person except Guaranteed Party and its successors and assigns. This Guarantee is not intended to benefit any holder of a collateral security interest in Guaranteed Party's rights under this

Guarantee. This Guarantee shall be construed in accordance with the laws of the State of New York, excluding its choice of law provisions.

PG&E National Energy Group, Inc.

By: Lyndell E. Maddox
Name: Lyndell E. Maddox
Title: President & COO

Rita M. White
Director, Contracts & Confirmation Control
Business Solutions
Conoco Gas & Power

Conoco Inc.
P. O. Box 2197 - CH 1058B
Houston, TX 77252-2197
(281) 293-6676
(281) 293-5914 - Fax

June 10, 2002

PG&E ENERGY TRADING GAS CORP
7600 WISCONSIN AVE
BETHESDA, MD 20814

RE: Change in Remittance Address for Conoco Inc., Contract # 14622, dated 7/1/1995.

Gentlemen:

Effective June 14, 2002, Conoco's remittance address is changing. The change only affects Conoco's Natural Gas Marketing physical transactions. All ACH, Wire, and Check payments for natural gas physical transactions should be directed as follows:

ACH:
Bank One
One Bank One Plaza
Chicago, IL 60670

Conoco Inc.
ABA [redacted] (B)(4)
Acco [redacted] (B)(5)
(B)(7)(e)

Check:
Conoco Inc.
P.O. Box 203192
Houston, TX 77216-3194

Wire:
JP Morgan Chase & Co.
1 Chase Manhattan Plaza
New York, NY 10005-1401

Conoco Inc.
ABA # [redacted] (B)(4)
Accou [redacted] (B)(5)
(B)(7)(e)

Please update your records accordingly. If you have any questions, please do not hesitate to call Debra Lemons at 281-293-1082 or Sherri Orler at 281-293-2165.

Sincerely,

Rita M. White

DIRECTOR, CONTRACTS & CONFIRMATION CONTROL

Rita M. White

MUTUAL RELEASE

This Mutual Release is executed by and between PG&E Energy Trading – Gas Corporation ("PGET") and ConocoPhillips Company, as successor to Conoco Inc., ("ConocoPhillips") (each a "Party" and collectively the "Parties") releasing each other as set forth below.

I. Mutual Release.

For and in consideration of the termination and release of the transactions and other good and valuable consideration exchanged between the Parties, each Party does for itself and its successors, assigns, affiliated companies, agents, and employees terminate the transactions identified in Exhibit A attached hereto ("Transactions") and forever release and discharge the other Party, its successors, assigns, affiliated companies, agents and employees from any and all manner of actions, suits, debts, covenants, contracts, controversies, agreements, promises, claims, and any and all demands and causes of action whatsoever, at law or in equity, which such Party, its successors, assigns, affiliated companies, agents and employees ever had, now have or may hereafter have against the other Party, its successors, assigns, affiliated companies, agents and employees which arises out of the conduct of the parties with regard to the Transactions.

II. Payment of Consideration.

ConocoPhillips shall pay PGET the amount of $175,000 within one business day of the execution of this Mutual Release, as consideration for this Mutual Release of its obligations under the Transactions.

III. Effective Date of Mutual Release.

This Mutual Release shall be effective as to the obligations of the Parties pursuant to the Transactions as of February 1, 2003.

IV. Confidentiality.

Except as required by law, regulation or judicial or administrative order, a Party shall not disclose the specific terms of the Agreement to any third party without the written consent of the other Party.

V. Entire Agreement.

Each Party understands and agrees that this Mutual Release sets forth the entire understanding and agreement of both Parties hereto with respect to the subject matter herein.

VI. Acknowledgements.

The person signing this Mutual Release on behalf of such Party acknowledges that (a) they have carefully and thoroughly read the foregoing; (b) they understand this Mutual Release; (c) they had the opportunity to have legal counsel review; and (d) that they have full proper authority to execute this Agreement on behalf of such Party.

IN WITNESS WHEREOF, each Party has signed this Mutual Release as of the date set forth below.

PG&E ENERGY TRADING – GAS CORPORATION

By: _____

Name: Sarah M. Barpoulis

Title: Senior Vice President

Date: 1/30/03

CONOCOPHILIPS COMPANY

By: _____

Name: L. Clint Plant

Title: Mgr. F&CI

Date: 1-28-03

EXHIBIT A

Physical Sale of natural gas by ConocoPhillips to PGET, of 25,000 dth/day, from June 1, 2002 through May 31, 2007, with a physical call option for an additional 25,000 dth/day, as evidenced by a transaction confirmation dated May 6, 2002.

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	
7600 Wisconsin Ave	JP Morgan Chase & Company	
Bathesda, MD 20814	(B)(4)	
	(B)(5)	
	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (301) 280-6600	Telephone: (281) 293-5838	
Fax: (301) 280-6604	Fax: (281) 293-3940	

Statement Number: R050213415
Billing Period: May-2002
Statement Date: June 10, 2002
Due Date: June 25, 2002
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from receipt of invoice

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: May-2002		**Contract:**	14622 - Buy-Sell			**Deal:** 14622-178				
10	01-May	31-May PG&E/NCal	Malin-PG&E Malin	Commodity	310,000	MMBtu	(B)(4) (B)(5) (B)(7)(e)	US$	MMBtu (B)(4) (B)(5) (B)(7)(e)	
				Statement Total:				US$	Sale Sub	

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R050213415
7600 Wisconsin Ave	JP Morgan Chase & Company	**Billing Period:** May-2002
Bathesda, MD 20814	ABA [redacted]	**Statement Date:** June 10, 2002
	Acct [redacted]	
	New York, NY 10005-1401	**Due Date:** June 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period: May-2002				**Contract:** 14622 - Buy-Sell				**Deal:** 14622-153			
1	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	463,539	MMBtu	[redacted]	S$ MMBtu	[redacted]	
2	01-May	31-May	TW	0058648-San Juan Pool	Commodity	384,075	MMBtu	[redacted]	S$ MMBtu	[redacted]	
3	01-May	31-May	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu	[redacted]	S$ MMBtu	[redacted]	
4	01-May	31-May		MANZAN-MANZAN	Commodity	0	MMBtu	[redacted]	S$ MMBtu	[redacted]	
Delivery Period: May-2002				**Contract:** 14622 - Buy-Sell				**Deal**			
5	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	132,324	MMBtu	[redacted]	S$ MMBtu	[redacted]	
6	01-May	31-May	TW	0058648-San Juan Pool	Commodity	317,669	MMBtu	[redacted]	S$ MMBtu	[redacted]	
7	01-May	31-May	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu	[redacted]	S$ MMBtu	[redacted]	
8	01-May	31-May		MANZAN-MANZAN	Commodity	0	MMBtu	[redacted]	S$ MMBtu	[redacted]	
Delivery Period: May-2002				**Contract:** 14622 - Buy-Sell				**Deal**			
9	01-May	31-May	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	599,967	MMBtu	[redacted]	S$ MMBtu	[redacted]	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

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ConocoPhillips Company

Attn: Gas Marketing Accounting
P O Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R050213415
7600 Wisconsin Ave	(B)(4) Morgan Chase & Company	**Billing Period:** May-2002
Bathesda, MD 20814	(B)(5) #	**Statement Date:** June 10, 2002
	(B)(7)(e)	
	New York, NY 10005-1401	**Due Date:** June 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period: M				Contract: 14622 Buy-Sell				Deal: 14622-153			
1	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	463,539	MMBtu		US$ MMBtu		
2	01-May	31-May	TW	0058648-San Juan Pool	Commodity	384,075	MMBtu	(B)(4)	US$ MMBtu		
3	01-May	31-May	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu	(B)(5)	US$ MMBtu	(B)(4)	
4	01-May	31-May		MANZAN-MANZAN	Commodity	0	MMBtu	(B)(7)(e)	US$ MMBtu	(B)(5)	
Delivery Period:		May-2002		**Contract:** 14622 - Buy-Sell				Deal: 14		(B)(7)(e)	
5	01-May	31-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	132,324	MMBtu		US$ MMBtu		
				0058648-S	Com				US$ MMBtu		
7	01-May	31-May	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu		US$ MMBtu		
8	01-May	31-May		MANZAN-MANZAN	Commodity	0	MMBtu		US$ MMBtu		
Delivery Period:		May-2002		**Contract:** 14622 - Buy-Sell				(B)(4) Deal: 1			
9	01-May	31-May	EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	599,967	MMBtu	(B)(5) (B)(7)(e)	US$ MMBtu	(B)(4) (B)(5) (B)(7)(e)	

003549

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	
7600 Wisconsin Ave	JP Morgan Chase & Company	
Bathesda, MD 20814	ABA [redacted]	
	Acct	
	New York, NY 10005-1401	
Contact:	Contact: Harriet E Patrick	
Telephone: (301) 280-6600	Telephone: (281) 293-5838	
Fax: (301) 280-6604	Fax: (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Statement Number:	R050213415
Billing Period:	May-2002
Statement Date:	June 10, 2002
Due Date:	June 25, 2002
Payment Method:	Wire
Terms:	Later of the 25th of the month or 10 days from receipt of invoice

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period:	May-2002		Contract:	14622 - Buy-Sell			Deal: [redacted]			
10	01-May	31-May	PG&E/NCal	Malin-PG&E Malin	Commodity	310,000	MMBtu	US$	MMBtu	[redacted]
									Sale Sub-	
				Statement Total:			US$			

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

003550

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R050213805
7600 Wisconsin Ave	JP Morgan Chase & Company	**Billing Period:** Jun-2002
Bathesda, MD 20814	ABA [redacted]	**Statement Date:** July 10, 2002
	Acct	
	New York, NY 10005-1401	**Due Date:** July 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

(B)(4)
(B)(5)
(B)(7)(e)

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal: 14622-153**				
1	01-Jun	30-Jun EPNG	BLANCO POOL-BLANCO POOL	Commodity	414,903	MMBtu	[redacted]	S$ MMBtu	[redacted]	
2	01-Jun	30-Jun TW	0058648-San Juan Pool	Commodity	285,285	MMBtu		S$ MMBtu		
3	01-Jun	30-Jun WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu		S$ MMBtu		
4	01-Jun	30-Jun	MANZAN-MANZAN	Commodity	0	MMBtu		S$ MMBtu		
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal:** 1				
5	01-Jun	30-Jun EPNG	BLANCO POOL-BLANCO POOL	Commodity	202,404	MMBtu		S$ MMBtu		
6	01-Jun	30-Jun TW	0058648-San Juan Pool	Commodity	313,724	MMBtu		S$ MMBtu		
7	01-Jun	30-Jun WFS	310K-KUTZ POOL-310K-KUTZ POOL	Commodity	0	MMBtu		S$ MMBtu		
8	01-Jun	30-Jun	MANZAN-MANZAN	Commodity	0	MMBtu		S$ MMBtu		
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal:** 1				
9	01-Jun	30-Jun EPNG	KEYSTONE POOL-KEYSTONE POOL	Commodity	584,288	MMBtu		S$ MMBtu		
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal:** 1				
10	01-Jun	30-Jun Colgulf	P3039310-ON POOL-CONOCO	Commodity	300,000	MMBtu		S$ MMBtu		
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal:** 1				
11	01-Jun	30-Jun TGT	3700-ZONE SL POOLING DEL	Commodity	300,000	MMBtu		S$ MMBtu		
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell			**Deal:** 1				
12	01-Jun	30-Jun Trunkline	TE028-CONOCO TRN EAST LOUISIANA TABS	Commodity	150,000	MMBtu		S$ MMBtu		

(B)(4)
(B)(5)
(B)(7)(e)

003551

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R050213805
7600 Wisconsin Ave	JP Morgan Chase & Company	**Billing Period:** Jun-2002
Bathesda, MD 20814	(B)(4)	**Statement Date:** **July 10, 2002**
	(B)(5)	
	(B)(7)(e) New York, NY 10005-1401	**Due Date:** July 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Jun-2002		**Contract:**	14622 - Buy-Sell				**Deal: 14622-182**			
13	02-Jun	02-Jun	EPNG	DPG&ETOP 32504-TOPOCK	Commodity	24	MMBtu		S$ MMBtu		
14	01-Jun	30-Jun	PG&E/NCal	EP0110R-Topock	Commodity	151,024	MMBtu		S$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	14622 - Buy-Sell				**Deal: 14**			
15	11-Jun	11-Jun	PG&E/NCal	Malin-PG&E Malin	Commodity	0	MMBtu		S$ MMBtu		
16	12-Jun	12-Jun			Commodity	0	MMBtu		S$ MMBtu		
17	14-Jun	14-Jun			Commodity	0	MMBtu		S$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	14622 - Buy-Sell				**Deal: 14**			
18	19-Jun	19-Jun	EPNG	BLANCO POOL-BLANCO POOL	Commodity	9,301	MMBtu		S$ MMBtu		
Delivery Period:	Jun-2002		**Contract:**	14622 - Buy-Sell				**Deal: 14**			
19	26-Jun	26-Jun	TGT	3700-ZONE SL POOLING DEL	Commodity	25,000	MMBtu		S$ MMBtu		
20	27-Jun	27-Jun			Commodity	25,000	MMBtu		S$ MMBtu		

(B)(4)
(B)(5)
(B)(7)(e)

003552

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	**Remit To:**	**Statement Number:** R050213805
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Billing Period:** Jun-2002
7600 Wisconsin Ave	JP Morgan Chase & Company	**Statement Date:** **July 10, 2002**
Bathesda, MD 20814	ABA: (B)(4) (B)(5) Acct: (B)(7)(e) New York, NY 10005-1401	**Due Date:** July 25, 2002
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell										
Delivery Period: Jun-2002			**Contract:** 14622 - Buy-Sell				**Deal:** (B)(4) (B)(5) (B)(7)(e)			
21 28-Jun	30-Jun	TGT	3700-ZONE SL POOLING DEL	Commodity	0	MMBtu	) US$	MMBtu	(B)(4) (B)(5) (B)(7)(e)	
								Sale Sul		
			Statement Total:			US$				

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
PG&E Energy Trading-Gas Corporation	ConocoPhillips Company	**Statement Number:** R04019269
7600 Wisconsin Ave	Chase Manhattan Bank, N.A.	**Billing Period:** Apr-2001
Bathesda, MD 20814	(B)(4) (B)(5) (B)(7)(e) Acct [redacted] ABA [redacted]	**Statement Date:** May 14, 2001
	New York, NY 10005-1401	**Due Date:** May 25, 2001
		Payment Method: Wire
Contact:	**Contact:** Harriet E Patrick	**Terms:** Later of the 25th of the month or 10 days from receipt of invoice
Telephone: (301) 280-6600	**Telephone:** (281) 293-5838	
Fax: (301) 280-6604	**Fax:** (281) 293-3940	

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Apr-2001			**Contract:** 14622 - Buy-Sell				**Deal:** 14622-136			
1	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Reverse Item 1 of Stmt R04019160	0	MMBtu	[redacted] (B)(4) (B)(5) (B)(7)(e)	US$ MMBtu	[redacted]	
2	01-Apr	30-Apr			Commodity	258,203	MMBtu		US$ MMBtu		
Delivery Period:	Apr-2001			**Contract:** 14622 - Buy-Sell				**Deal:** 146			
3	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Reverse Item 3 of Stmt R04019160	-551,917	MMBtu		US$ MMBtu		
4	01-Apr	30-Apr			Commodity	293,714	MMBtu		US$ MMBtu		
								(B)(4) (B)(5) (B)(7)(e)	**Sale Sub**	(B)(4) (B)(5) (B)(7)(e)	
					Statement Total:				US$		

003556

142,536

ARCO Oil and Gas Company
1601 Bryan Street
Dallas, Texas 75201
Telephone 214 880 4671

E. J. Cerny
Manager
Gas Acquisition

February 7, 1991

Rod Pocza
Amoco Energy Trading Corp.
550 WestLake Park Blvd.
Houston, TX 77079

Re: Letter of Intent - Midway-Sunset Cogeneration Company
GA-000135

Letter of Intent - ARCO Oil and Gas Company
GA-000136

Dear Rod:

ARCO Oil and Gas Company has executed the attached Letters of Intent covering both our facilities in California. We are eager to begin discussions to work out an acceptable contract per the conditions outlined in the Letters of Intent.

Also, per our discussion, ARCO and Amoco have agreed that Buyer shall have the right of first refusal under the Excess Gas provision in paragraph three of the Letters of Intent. Please evidence Amoco's agreement to this clarification by signing in the space provided below.

If you have any questions, please call me at 214-880-5842.

Very truly yours,

David A. Kuhn
Sr. Gas Acquisition Representative

DAK:pc

Attachment

\david\amoco.51

Accepted and Agreed to this 8 day of Feb. 1991.

Seller: Rod Pocza

Title: Sr. Staff Gas Marketing Rep

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Gas Daily

Tuesday, June 14, 2005

Heat wave powers NYMEX 32.8 cents higher

THE MARKET

The July NYMEX futures contract surged on Monday, gaining 32.8 cents to close at $7.26/MMBtu—the highest prompt-month settlement since early April—as a widespread heat wave prompted a new round of short-covering.

The contract started the day at its low of $7.02 and pressed to its high of $7.28 near the end of trading.

"We haven't even had our official start to summer," said an analyst, who noted that traders apparently view this week's steamy weather from the desert Southwest to the East Coast as a precursor to even hotter conditions. "We may be challenged to meet very strong

(continued on page 2)

Gulf gas producers ramp up in Arlene's wake

Producers began remanning their rigs and platforms in the Gulf of Mexico over the weekend after Tropical Storm Arlene brushed the eastern edge of the producing region, causing minimal damage but curtailing about 4% of the region's daily gas output.

Companies reported 416,200 Mcf/day still shut in as of midday Monday, representing 3.8% of the Gulf's 10.8 Bcf/day of total production, according to the New Orleans office of the Minerals Management Service.

MMS said 16 firms reported evacuating a total of 28 platforms and

(continued on page 5)

INGAA seeks more teamwork on pipeline siting

The INGAA Foundation on Monday urged greater coordination among the federal agencies involved in siting gas pipeline projects, saying the existing process has posed "a significant challenge" to building much-needed gas transportation capacity.

Meanwhile, Interstate Natural Gas Assn. of America President Donald Santa, Jr. said a pending energy bill expected to reach the Senate floor this week should give FERC more tools to force other agencies to comply with deadlines it sets during the pipeline review process.

In a study prepared for the INGAA Foundation by the

(continued on page 5)

CFTC charges former Oneok trader with fraud

The Commodity Futures Trading Commission has charged a former Oneok gas trader with fraud, saying he and others allegedly booked about $64,000 of NYMEX gas trades to an account outside of the company's purview.

The CFTC said Monday that it has filed, and simultaneously settled, an administrative enforcement action against Hugh Maddox, who "from approximately May 2003 through February 2004 engaged in a fraudulent scheme with others to skim profits from Oneok's trading of

(continued on page 6)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.850

Trans. date: 6/13
Flow date(s): 6/14

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.360	6.23-6.59	6.27-6.45	855	103
Waha	6.645	6.30-6.72	6.54-6.72	524	84
Transwestern, Permian Basin	—	— —	— —	—	0
East Texas-North Louisiana Area					
Carthage Hub	6.810	6.75-6.85	6.78-6.84	57	9
NGPL, Texok zone	6.885	6.86-6.92	6.87-6.90	195	25
Texas Eastern, ETX	6.785	6.75-6.80	6.77-6.80	14	3
Texas Gas, zone 1	7.060	7.01-7.12	7.03-7.09	92	18
East-Houston-Katy					
Houston Ship Channel	7.025	7.01-7.05	7.01-7.04	286	25
Katy	7.030	7.00-7.08	7.01-7.05	127	16
South-Corpus Christi					
Agua Dulce Hub	7.015	7.00-7.04	7.00-7.03	33	3
NGPL, STX	6.945	6.93-6.97	6.93-6.96	27	4
Tennessee, zone 0	7.000	6.96-7.15	6.96-7.05	259	45
Texas Eastern, STX	6.950	6.90-7.06	6.91-6.99	196	36
Transco, zone 1	7.020	7.01-7.08	7.01-7.04	9	4
Louisiana-Onshore South					
ANR, La.	7.025	7.00-7.10	7.00-7.05	206	36
Columbia Gulf, La.	7.090	7.03-7.15	7.06-7.12	134	21
Columbia Gulf, mainline	7.155	7.12-7.19	7.14-7.17	52	8
Florida Gas, zone 1	7.070	7.04-7.12	7.05-7.09	143	12
Florida Gas, zone 2	7.150	7.12-7.16	7.14-7.16	137	11
Florida Gas, zone 3	7.215	7.17-7.32	7.18-7.25	260	20
Henry Hub	7.080	7.01-7.19	7.03-7.13	791	102
NGPL, La.	6.995	6.99-7.00	6.99-7.00	3	2
Southern Natural, La.	7.110	6.98-7.17	7.06-7.16	184	30
Tennessee, La., 500 Leg	7.080	6.98-7.20	7.02-7.14	415	62
Tennessee, La., 800 Leg	7.035	6.97-7.12	7.00-7.07	281	35
Texas Eastern, WLA	7.075	7.04-7.10	7.06-7.09	125	19
Texas Eastern, ELA	7.080	7.00-7.16	7.04-7.12	338	54
Texas Gas, zone SL	7.070	7.02-7.14	7.04-7.10	115	19
Transco, zone 2	7.115	7.10-7.15	7.10-7.13	44	9
Transco, zone 3	7.180	7.10-7.28	7.13-7.23	746	102
Trunkline, WLA	7.025	7.02-7.04	7.02-7.03	23	5
Trunkline, ELA	7.025	7.00-7.05	7.01-7.04	80	16
Oklahoma					
ANR, Okla.	6.235	6.19-6.35	6.19-6.28	77	16
CenterPoint, East	6.790	6.75-6.85	6.78-6.82	40	8
NGPL, Midcontinent	6.270	6.18-6.40	6.21-6.33	338	72
Oneok, Okla.	6.400	6.35-6.50	6.36-6.44	39	5
Panhandle, Tx.-Okla.	6.225	6.18-6.50	6.18-6.31	307	49
Southern Star, Tx.-Okla.-Kan.	6.230	6.21-6.24	6.22-6.24	54	5
New Mexico-San Juan Basin					
El Paso, Bondad	5.755	5.73-5.80	5.74-5.77	48	13
El Paso, San Juan Basin	5.755	5.72-5.85	5.72-5.79	319	45

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Gas Daily

Wednesday, June 15, 2005

Wholesale gas market enjoying renewed liquidity

RANKINGS, page 6

The gas trading sector is enjoying an increasingly liquid market, with Gas Daily's latest ranking of North American marketers reflecting a notable increase in sales volumes from a year ago.

The 10 largest marketing companies, as measured by wholesale physical volumes, sold 85.3 Bcf/day in the first quarter of 2005, or 8.4% more than those same firms sold in the first quarter of 2004. The top 20 marketers reported selling 109.7 Bcf/day, up 6.6% from a year ago.

"For natural gas, we are returning to the pre-credit-crisis era and transactions are taking place farther out on the curve," said Louise

(continued on page 5)

Constellation beefs up its gas trading operation

Electricity giant Constellation Energy plans a major expansion of its gas trading operation by hiring several executives of a small Houston-based firm—including the former head of El Paso's gas marketing unit.

Constellation spokesman Larry McDonald said Tuesday that the Baltimore-based electric utility and power marketing company will appoint Epoch Energy President and CEO Tim Bourn as managing director of Constellation's new gas trading division to be headquartered in Houston. Epoch is a gas management services company with about a dozen employees.

(continued on page 4)

Domenici: Senate bill won't include OCS drilling

Senate Energy and Natural Resources Committee Chairman Pete Domenici said Tuesday that he won't pursue a provision in a comprehensive energy bill allowing states to petition the Interior Dept. to allow offshore gas and oil development along the Outer Continental Shelf.

Domenici, R-N.M., was seeking to reassure Florida senators who vociferously oppose efforts to lift federal bans for fear that allowing drilling offshore would damage that state's multi-billion-dollar tourism industry. But Domenici said he would not offer the same assurance that

(continued on page 3)

Steamy weather, sizzling NYMEX propel cash

THE MARKET

Sweltering heat in the East, pipeline maintenance in the Southwest and Monday's 32.8-cent NYMEX surge all combined to send Tuesday's spot prices roaring as much as 40 cents higher.

Continued curtailments on El Paso Natural Gas' San Juan Basin Crossover helped create additional demand in the Permian Basin, where cash prices tacked another 35 cents on to similar gains there Monday.

"People are buying from Permian instead of San Juan because they

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.080

Trans. date: 6/14
Flow date(s): 6/15

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.745	6.65-6.83	6.70-6.79	773	106
Waha	6.820	6.65-6.89	6.76-6.88	602	83
Transwestern, Permian Basin	5.990	5.90-6.05	5.95-6.03	25	5
East Texas-North Louisiana Area					
Carthage Hub	7.055	7.02-7.09	7.04-7.07	49	8
NGPL, Texok zone	7.090	7.04-7.18	7.05-7.13	231	36
Texas Eastern, ETX	7.065	7.05 -7.07	7.06 -7.07	15	3
Texas Gas, zone 1	7.355	7.27 -7.45	7.31 -7.40	59	11
East-Houston-Katy					
Houston Ship Channel	7.315	7.29 -7.33	7.30 -7.33	322	25
Katy	7.280	7.17 -7.35	7.23 -7.33	231	19
South-Corpus Christi					
Agua Dulce Hub	7.265	7.18 -7.32	7.23 -7.30	33	4
NGPL, STX	7.185	7.11 -7.19	7.16 -7.19	23	6
Tennessee, zone 0	7.225	7.10 -7.29	7.18 -7.27	255	43
Texas Eastern, STX	7.170	7.12 -7.28	7.13 -7.21	167	38
Transco, zone 1	7.230	7.20 -7.25	7.22 -7.24	48	11
Louisiana-Onshore South					
ANR, La.	7.295	7.25 -7.34	7.27 -7.32	146	33
Columbia Gulf, La.	7.320	7.28 -7.40	7.29 -7.35	115	24
Columbia Gulf, mainline	7.390	7.35 -7.45	7.36 -7.42	86	15
Florida Gas, zone 1	7.380	7.35 -7.41	7.36 -7.40	204	12
Florida Gas, zone 2	7.420	7.39 -7.46	7.40 -7.44	186	19
Florida Gas, zone 3	7.510	7.49 -7.55	7.49 -7.53	243	24
Henry Hub	7.320	7.26 -7.38	7.29 -7.35	740	100
NGPL, La.	7.230	7.20 -7.28	7.21 -7.25	8	3
Southern Natural, La.	7.370	7.31 -7.42	7.34 -7.40	237	39
Tennessee, La., 500 Leg	7.290	7.19 -7.33	7.25 -7.33	353	41
Tennessee, La., 800 Leg	7.295	7.23 -7.35	7.26 -7.33	272	42
Texas Eastern, WLA	7.300	7.23 -7.35	7.27 -7.33	123	20
Texas Eastern, ELA	7.330	7.28 -7.42	7.29 -7.37	372	54
Texas Gas, zone SL	7.310	7.27 -7.34	7.29 -7.33	57	10
Transco, zone 2	7.355	7.33 -7.38	7.34 -7.37	58	13
Transco, zone 3	7.445	7.39 -7.50	7.42 -7.47	722	111
Trunkline, WLA	7.265	7.22 -7.30	7.24 -7.29	41	9
Trunkline, ELA	7.270	7.23 -7.31	7.25 -7.29	94	20
Oklahoma					
ANR, Okla.	6.550	6.48 -6.59	6.52 -6.58	83	13
CenterPoint, East	6.980	6.88 -7.04	6.94 -7.02	75	20
NGPL, Midcontinent	6.565	6.49 -6.59	6.54 -6.59	236	39
Oneok, Okla.	6.680	6.57 -6.74	6.64 -6.72	83	13
Panhandle, Tx.-Okla.	6.570	6.48 -6.60	6.54 -6.60	284	56
Southern Star, Tx.-Okla.-Kan.	6.555	6.45 -6.60	6.52 -6.59	85	7
New Mexico-San Juan Basin					
El Paso, Bondad	5.880	5.81 -5.92	5.85 -5.91	22	4
El Paso, San Juan Basin	5.870	5.58 -6.00	5.76 -5.98	246	32

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Gas Daily

Thursday, June 16, 2005

FERC approves major El Paso pipeline expansion

An integrated plan by El Paso Natural Gas to combine new and existing facilities with a former crude oil pipeline and create 502,000 Mcf/day of new capacity received FERC's approval on Wednesday.

The Line 1903 project, first proposed in October (*GD 10/6*), is designed to provide El Paso with a new west-end crossover system, creating supply and market alternatives and greater operational flexibility for new and existing shippers.

The main element of the project is conversion of an 88-mile segment of a much larger former oil pipeline that El Paso bought in March 2000.

El Paso also plans to build 6.4 miles of 30-inch-diameter pipeline and

(continued on page 7)

Another Gulf Coast LNG terminal gets FERC nod

FERC gave its final approval Wednesday to ExxonMobil's proposed Vista del Sol liquefied natural gas terminal and related pipelines near Corpus Christi, Texas—the latest in a string of Gulf Coast LNG import facilities to receive the federal government's blessing.

But ExxonMobil spokesman Bob Davis said it's still not clear if the proposed $600 million, 1.1 Bcf/day facility will be built. He said the company is pursuing regulatory approval for three proposed LNG terminals in the Gulf region and plans to build no more than two of those.

In addition, Davis noted that Vista del Sol must secure several other

(continued on page 6)

Vectren ordered to issue $9.6 million in rebates

After nearly three years of investigating Vectren Energy Delivery of Ohio's relationship with its subsidiary, ProLiance Asset Management Services, the Public Utilities Commission of Ohio on Tuesday ordered the utility to issue $9.6 million in rebates plus 10% interest to its 310,000 gas customers in the state.

Vectren immediately said it would ask the PUC to reconsider its 3-2 decision. Company President Steve Bramlage said he was "very disappointed" with the order, which resulted from an audit of the utility's gas purchases between November 2000 and October 2002.

(continued on page 5)

July NYMEX bolts to $7.50; cash prices mixed

THE MARKET

The July NYMEX futures contract barreled higher on Wednesday, rising 21.3 cents to settle at $7.441/MMBtu amid "a ton of fund buying, strong crude pricing and the residual heat" across the eastern United States, a broker said. Since Monday, the contract has gained nearly 51 cents.

With one last day of near-record heat, and with buoyant oil prices settling above $55/barrel, the July gas contract pressed as high as $7.50 before pulling back to its intraday low of $7.34.

For fundamental guidance, many traders and analysts are eyeing

Daily price survey (US$/MMBtu)

NATIONAL AVERAGE PRICE: 7.070

Trans. date: 6/15
Flow date(s): 6/15

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.700	6.67-6.89	6.67-6.76	840	114
Waha	6.800	6.45-7.00	6.66-6.94	638	71
Transwestern, Permian Basin	5.950	5.90-6.05	5.91-5.99	32	5
East Texas-North Louisiana Area					
Carthage Hub	7.065	7.04-7.08	7.05-7.08	32	5
NGPL, Texok zone	7.090	6.99-7.12	7.06-7.12	158	21
Texas Eastern, ETX	7.100	7.10-7.10	7.10-7.10	10	2
Texas Gas, zone 1	7.330	7.29-7.39	7.30-7.36	52	12
East-Houston-Katy					
Houston Ship Channel	7.400	7.33-7.50	7.36-7.44	392	31
Katy	7.375	7.35-7.40	7.36-7.39	321	26
South-Corpus Christi					
Agua Dulce Hub	7.295	7.24-7.35	7.27-7.32	167	12
NGPL, STX	7.155	7.14-7.17	7.15-7.16	21	6
Tennessee, zone 0	7.250	7.20-7.29	7.23-7.27	310	60
Texas Eastern, STX	7.190	7.14-7.28	7.15-7.23	85	20
Transco, zone 1	7.330	7.26-7.34	7.31-7.34	40	8
Louisiana-Onshore South					
ANR, La.	7.300	7.27-7.35	7.28-7.32	177	30
Columbia Gulf, La.	7.360	7.32-7.43	7.33-7.39	172	30
Columbia Gulf, mainline	7.405	7.34-7.47	7.37-7.44	80	15
Florida Gas, zone 1	7.445	7.41-7.46	7.43-7.46	186	11
Florida Gas, zone 2	7.425	7.41-7.45	7.41-7.44	97	13
Florida Gas, zone 3	7.550	7.48-7.59	7.52-7.58	356	34
Henry Hub	7.395	7.34-7.50	7.35-7.44	546	80
NGPL, La.	7.240	7.22-7.28	7.22-7.26	31	5
Southern Natural, La.	7.400	7.36-7.44	7.38-7.42	309	34
Tennessee, La., 500 Leg	7.300	7.26-7.34	7.28-7.32	371	46
Tennessee, La., 800 Leg	7.300	7.27-7.34	7.28-7.32	365	45
Texas Eastern, WLA	7.300	7.26-7.32	7.28-7.32	39	10
Texas Eastern, ELA	7.370	7.32-7.40	7.35-7.39	354	40
Texas Gas, zone SL	7.350	7.32-7.37	7.34-7.36	100	16
Transco, zone 2	7.395	7.36-7.43	7.38-7.41	77	17
Transco, zone 3	7.470	7.41-7.54	7.44-7.50	782	102
Trunkline, WLA	7.295	7.29-7.31	7.29-7.30	19	4
Trunkline, ELA	7.295	7.28-7.32	7.28-7.31	130	25
Oklahoma					
ANR, Okla.	6.530	6.51-6.57	6.51-6.55	30	5
CenterPoint, East	7.025	7.00-7.06	7.01-7.04	97	12
NGPL, Midcontinent	6.550	6.52-6.59	6.53-6.57	202	46
Oneok, Okla.	6.705	6.68-6.72	6.69-6.72	47	7
Panhandle, Tx.-Okla.	6.540	6.50-6.62	6.51-6.57	255	46
Southern Star, Tx.-Okla.-Kan.	6.570	6.54-6.58	6.56-6.58	5	2
New Mexico-San Juan Basin					
El Paso, Bondad	5.610	5.55-5.65	5.58-5.64	12	4
El Paso, San Juan Basin	5.635	5.52-5.75	5.58-5.69	310	40

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Gas Daily

Friday, June 17, 2005

Bodman, Kelly back LNG growth—with caveats

Liquefied natural gas imports are an attractive and necessary means of meeting growing gas demand in the United States, but only after several key hurdles are overcome, top government officials said Thursday.

Addressing a joint Center for LNG/U.S. Energy Assn. conference in Washington, D.C., Energy Secretary Samuel Bodman said the appeal of natural gas for U.S. energy consumers "seems to be something of a poison pill, in that our nation is threatening to grow overly dependent on this source of fuel ... Our demand is growing steadily, but not our ability to meet it."

Bodman noted that the average number of gas rigs in use in the

(continued on page 6)

N.J. threatens to sue Delaware over LNG project

While many East Coast politicians are aggressively fighting proposed liquefied natural gas import projects along their coastlines, New Jersey officials are taking the opposite approach.

The Garden State is threatening legal action against neighboring Delaware, which has been using regulatory maneuvers to block BP from building its proposed Crown Landing LNG terminal on the Delaware River. In addition, New Jersey plans to float between $50 million and $100 million in tax-exempt bonds to help ensure that the Crown Landing project proceeds.

(continued on page 5)

Analyst: Tight market to mean $8.50 gas in 2007

Energy and Environmental Analysis on Thursday issued its first U.S. gas price projection for 2007, and it's a bullish one—$8.50/MMBtu at Henry Hub.

Driving the consulting firm's forecast are expectations of prolonged tightness in the supply/demand balance and doubts that liquefied natural gas imports will be adequate to fill the gap within two years, EEA Director Kevin Petak told *Gas Daily*.

The Arlington, Va.-based firm kept its 2005 price prediction of $6.45/MMBtu unchanged and left its 2006 forecast of $7.50/MMBtu

(continued on page 4)

Topping out at $7.70, NYMEX gains 17.2 cents

THE MARKET

The July NYMEX futures contract raced toward the $8/MMBtu mark on Thursday, tacking on another 17.2 cents to settle at $7.613 and capping off a four-day, 68-cent gain.

Traders said the Energy Information Administration's weekly gas storage report was the primary motivator, as the 73-Bcf build for the week ending June 10 fell short of market expectations and created a wave of short-covering.

"The broader implication for natural gas with that small injection is that supplies, while robust, are maybe vulnerable to rapid consumption if

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.060

Trans. date: 6/16
Flow date(s): 6/17

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.750	6.69-6.90	6.70-6.80	756	98
Waha	6.870	6.62-6.91	6.80-6.91	550	66
Transwestern, Permian Basin	5.935	5.90-6.00	5.91-5.96	19	4
East Texas-North Louisiana Area					
Carthage Hub	7.090	7.06-7.13	7.07-7.11	49	7
NGPL, Texok zone	7.125	7.04-7.32	7.05-7.20	253	32
Texas Eastern, ETX	7.070	7.07 -7.07	7.07 -7.07	10	2
Texas Gas, zone 1	7.395	7.37 -7.43	7.38 -7.41	123	20
East-Houston-Katy					
Houston Ship Channel	7.435	7.37 -7.48	7.41 -7.46	166	12
Katy	7.410	7.38 -7.45	7.39 -7.43	214	14
South-Corpus Christi					
Agua Dulce Hub	7.305	7.27 -7.34	7.29 -7.32	260	16
NGPL, STX	7.185	7.16 -7.21	7.17 -7.20	46	8
Tennessee, zone 0	7.270	7.23 -7.37	7.23 -7.31	285	48
Texas Eastern, STX	7.120	7.09 -7.28	7.09 -7.17	100	16
Transco, zone 1	7.325	7.32 -7.33	7.32 -7.33	28	4
Louisiana-Onshore South					
ANR, La.	7.295	7.25 -7.37	7.26 -7.33	176	32
Columbia Gulf, La.	7.420	7.37 -7.47	7.39 -7.45	172	25
Columbia Gulf, mainline	7.450	7.43 -7.50	7.43 -7.47	75	18
Florida Gas, zone 1	7.445	7.43 -7.45	7.44 -7.45	140	8
Florida Gas, zone 2	7.440	7.43 -7.46	7.43 -7.45	94	10
Florida Gas, zone 3	7.545	7.43 -7.65	7.49 -7.60	347	29
Henry Hub	7.410	7.37 -7.60	7.37 -7.47	859	101
NGPL, La.	7.230	7.21 -7.35	7.21 -7.27	31	6
Southern Natural, La.	7.435	7.37 -7.53	7.39 -7.48	246	32
Tennessee, La., 500 Leg	7.295	7.27 -7.42	7.27 -7.33	253	43
Tennessee, La., 800 Leg	7.290	7.26 -7.34	7.27 -7.31	305	45
Texas Eastern, WLA	7.280	7.22 -7.35	7.25 -7.31	21	7
Texas Eastern, ELA	7.385	7.34 -7.52	7.34 -7.43	308	47
Texas Gas, zone SL	7.415	7.36 -7.49	7.38 -7.45	103	13
Transco, zone 2	7.355	7.33 -7.37	7.34 -7.37	53	11
Transco, zone 3	7.435	7.40 -7.53	7.40 -7.47	668	95
Trunkline, WLA	7.365	7.32 -7.38	7.35 -7.38	31	5
Trunkline, ELA	7.305	7.25 -7.38	7.27 -7.34	87	15
Oklahoma					
ANR, Okla.	6.555	6.50 -6.59	6.53 -6.58	51	13
CenterPoint, East	7.020	6.99 -7.07	7.00 -7.04	81	13
NGPL, Midcontinent	6.580	6.52 -6.74	6.52 -6.64	241	48
Oneok, Okla.	6.615	6.60 -6.64	6.60 -6.63	47	11
Panhandle, Tx.-Okla.	6.580	6.52 -6.60	6.56 -6.60	162	34
Southern Star, Tx.-Okla.-Kan.	6.540	6.51 -6.57	6.52 -6.56	38	4
New Mexico-San Juan Basin					
El Paso, Bondad	5.500	5.50 -5.50	5.50 -5.50	7	1
El Paso, San Juan Basin	5.575	5.49 -5.70	5.52 -5.63	365	38

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Gas Daily

Monday, June 20, 2005

Appalachia seen as 'bright spot' for gas supply

Although gas production and reserves in Appalachia aren't nearly as substantial as in other parts of the country, the mountainous region could nonetheless prove vital in meeting future U.S. gas demand, industry analysts agree.

Along with the Rocky Mountain region and the Barnett Shale of North Texas, Appalachia is one of only three potential "bright spots" where onshore domestic gas output could grow over the long term, said Shree Vikas, manager of energy markets with Science Applications International.

Gas production in Appalachia is dominated by small, privately held

(continued on page 6)

Dominion data snafu prompts class action suit

Dominion Transmission's erroneous gas storage data submission that caused a huge one-day spike in NYMEX futures prices last November has prompted two consumers to filed a class-action lawsuit against the company.

The plaintiffs, one from Virginia and the other from West Virginia, asserted in their complaint Thursday that consumer fuel costs were inflated due to Dominion's error which, according to FERC, temporarily boosted spot gas prices between $200 million and $1 billion (*GD 12/20*).

The plaintiffs are seeking to recoup unspecified damages from

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Coast Guard issues draft EIS for Main Pass LNG

The U.S. Coast Guard and the U.S. Maritime Administration Friday issued a draft environmental impact statement for the Main Pass Energy Hub, a proposed liquefied natural gas import terminal off the Louisiana coast.

The 1 Bcf/day facility, proposed by Freeport-McMoRan Energy, would be located on a former sulphur mining facility in the Gulf of Mexico and would use four existing platforms "along with associated bridges and support structures with appropriate modifications and additions as part of the deepwater port," according to a notice in

(continued on page 5)

Cash keeps upward momentum in most regions

THE MARKET

An unrelenting heat wave along the Gulf Coast helped lift cash prices there by as much as 20 cents/MMBtu on Friday, while conflicting fundamentals in other regions created an unpredictable spot market.

With daytime temperatures expected to reach the mid-90s from Houston to New Orleans through the middle of this week, strong cooling demand—along with a rising NYMEX contract—more than offset the typical reduction in weekend industrial demand.

Trading was choppy as market players wrestled with the mixed

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.170

Trans. date: 6/17
Flow date(s): 6/18-20

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.690	6.61-6.81	6.64-6.74	844	118
Waha	6.860	6.58-7.10	6.73-6.99	383	56
Transwestern, Permian Basin	5.935	5.85-5.95	5.91-5.95	62	12
East Texas-North Louisiana Area					
Carthage Hub	7.320	7.27-7.36	7.30-7.34	56	11
NGPL, Texok zone	7.315	7.29-7.35	7.30-7.33	212	28
Texas Eastern, ETX	7.170	7.17-7.17	7.17-7.17	10	2
Texas Gas, zone 1	7.590	7.55-7.63	7.57-7.61	73	17
East-Houston-Katy					
Houston Ship Channel	7.630	7.56-7.71	7.59-7.67	179	17
Katy	7.605	7.55-7.67	7.57-7.64	209	19
South-Corpus Christi					
Agua Dulce Hub	7.510	7.45-7.62	7.47-7.55	343	27
NGPL, STX	7.400	7.40-7.40	7.40-7.40	13	4
Tennessee, zone 0	7.440	7.38-7.55	7.40-7.48	311	62
Texas Eastern, STX	7.315	7.25-7.41	7.27-7.36	116	21
Transco, zone 1	7.530	7.53-7.53	7.53-7.53	19	5
Louisiana-Onshore South					
ANR, La.	7.465	7.43-7.54	7.44-7.49	117	21
Columbia Gulf, La.	7.580	7.53-7.62	7.56-7.60	115	22
Columbia Gulf, mainline	7.635	7.61-7.68	7.62-7.65	117	21
Florida Gas, zone 1	7.690	7.68-7.70	7.68-7.70	100	6
Florida Gas, zone 2	7.675	7.67-7.69	7.67-7.68	27	2
Florida Gas, zone 3	7.710	7.50-7.79	7.64-7.78	349	29
Henry Hub	7.600	7.52-7.66	7.56-7.64	890	115
NGPL, La.	7.455	7.45-7.46	7.45-7.46	19	3
Southern Natural, La.	7.570	7.53-7.61	7.55-7.59	174	27
Tennessee, La., 500 Leg	7.465	7.40-7.52	7.43-7.50	265	45
Tennessee, La., 800 Leg	7.470	7.42-7.50	7.45-7.49	226	30
Texas Eastern, WLA	7.490	7.47-7.50	7.48-7.50	23	4
Texas Eastern, ELA	7.570	7.52-7.63	7.54-7.60	248	44
Texas Gas, zone SL	7.590	7.55-7.61	7.57-7.61	130	21
Transco, zone 2	7.495	7.42-7.51	7.47-7.51	59	14
Transco, zone 3	7.585	7.55-7.64	7.56-7.61	627	78
Trunkline, WLA	7.545	7.53-7.57	7.53-7.56	29	4
Trunkline, ELA	7.490	7.46-7.54	7.47-7.51	80	16
Oklahoma					
ANR, Okla.	6.580	6.57-6.63	6.57-6.60	55	8
CenterPoint, East	7.240	7.19-7.28	7.22-7.26	175	30
NGPL, Midcontinent	6.550	6.45-6.59	6.51-6.59	260	47
Oneok, Okla.	7.030	7.03-7.03	7.03-7.03	35	7
Panhandle, Tx.-Okla.	6.620	6.52-6.70	6.57-6.67	123	24
Southern Star, Tx.-Okla.-Kan.	6.605	6.57-6.63	6.59-6.62	59	7
New Mexico-San Juan Basin					
El Paso, Bondad	5.910	5.75-6.05	5.83-5.99	11	4
El Paso, San Juan Basin	5.860	5.70-6.05	5.77-5.95	393	47

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Gas Daily

Tuesday, June 21, 2005

ESAI: Gas reserve growth will be 'very limited'

Any incremental gas production over the next five years will merely serve to offset steep declines from aging fields in Texas, Louisiana and Oklahoma, resulting in "very limited" reserve growth of less than 2%/year, according to a report issued Monday by Energy Security Analysis Inc.

The Wakefield, Mass.-based consultant said U.S. gas production as a percentage of total domestic supply is expected to drop below 80% after 2010 from about 85% today. And that trend will continue as liquefied natural gas imports gain a larger market share in the next decade, ESAI added.

Meanwhile, imports from Canada will decline until 2010 and then

(continued on page 6)

EnCana to unload storage assets, focus on E&P

In an effort to sharpen its focus on exploration and production, EnCana on Monday said it will sell or spin off its wealth of gas storage operations across North America.

"As a relatively small part of EnCana, gas storage is not considered crucial to the success of the company's upstream operations," said President and CEO Gwyn Morgan. "As EnCana continues to sharpen its focus on the exploration and development of its North American gas and oil resource plays, we have decided that EnCana may realize the best value from gas storage through a possible divestiture or an initial

(continued on page 5)

Two El Paso units float pipeline expansions

Furthering its pipeline-centric business plan, El Paso on Monday announced open seasons for two separate expansion projects—one in New York State and the other in Wisconsin and northern Illinois.

Subsidiary Tennessee Gas Pipeline began an open season for its Corning Extension Project, which is intended to provide transportation service from the Gulf Coast to an interconnection with the proposed Millennium Pipeline in Corning, N.Y.

The Corning Extension would combine existing upstream capacity with the construction of 31 miles of new pipeline from Tennessee's

(continued on page 4)

Hot weather sends prices up 70 cents in West

THE MARKET

Ignited by forecasts for soaring temperatures in several regions, cash prices on Monday shot up as much as 70 cents/MMBtu in the West and from 20 cents to a half-dollar in other regions.

Strength on the July NYMEX gas futures contract also provided some support, though late contract weakness took the edge off late spot deals, traders said.

Forecasts for triple-digit heat across the Southwest this week stoked demand at the California border and drove cash prices at Southern

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.480

Trans. date: 6/20
Flow date(s): 6/21

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.155	7.00-7.30	7.08-7.23	950	121
Waha	7.165	6.91-7.35	7.05-7.28	696	90
Transwestern, Permian Basin	6.510	6.45-6.60	6.47-6.55	18	4
East Texas-North Louisiana Area					
Carthage Hub	7.450	7.35-7.56	7.40-7.50	65	11
NGPL, Texok zone	7.460	7.25-7.52	7.39-7.52	154	30
Texas Eastern, ETX	7.520	7.52-7.52	7.52-7.52	10	2
Texas Gas, zone 1	7.730	7.67-7.79	7.70-7.76	61	16
East-Houston-Katy					
Houston Ship Channel	7.845	7.80-7.87	7.83-7.86	313	34
Katy	7.800	7.68-7.86	7.75-7.85	294	26
South-Corpus Christi					
Agua Dulce Hub	7.735	7.63-7.84	7.68-7.79	241	19
NGPL, STX	7.580	7.48-7.60	7.55-7.60	39	12
Tennessee, zone 0	7.630	7.40-7.77	7.54-7.72	303	45
Texas Eastern, STX	7.550	7.30-7.68	7.45-7.65	119	20
Transco, zone 1	7.570	7.47-7.65	7.52-7.62	27	6
Louisiana-Onshore South					
ANR, La.	7.620	7.50-7.74	7.56-7.68	79	16
Columbia Gulf, La.	7.680	7.45-7.81	7.59-7.77	37	8
Columbia Gulf, mainline	7.770	7.49-7.88	7.67-7.87	155	26
Florida Gas, zone 1	7.900	7.90-7.90	7.90-7.90	5	1
Florida Gas, zone 2	7.900	7.90-7.90	7.90-7.90	20	1
Florida Gas, zone 3	7.815	7.70-7.94	7.75-7.88	160	20
Henry Hub	7.820	7.47-7.87	7.72-7.87	942	126
NGPL, La.	7.625	7.53-7.70	7.58-7.67	33	5
Southern Natural, La.	7.775	7.49-7.86	7.68-7.86	163	26
Tennessee, La., 500 Leg	7.655	7.50-7.71	7.60-7.71	342	48
Tennessee, La., 800 Leg	7.590	7.40-7.71	7.51-7.67	249	31
Texas Eastern, WLA	7.720	7.62-7.79	7.68-7.76	27	8
Texas Eastern, ELA	7.760	7.58-7.86	7.69-7.83	294	50
Texas Gas, zone SL	7.710	7.47-7.82	7.62-7.80	129	28
Transco, zone 2	7.765	7.70-7.82	7.73-7.80	55	8
Transco, zone 3	7.795	7.51-7.91	7.69-7.90	565	70
Trunkline, WLA	7.700	7.50-7.76	7.63-7.76	36	9
Trunkline, ELA	7.700	7.65-7.74	7.68-7.72	174	27
Oklahoma					
ANR, Okla.	7.000	6.95-7.05	6.97-7.03	42	9
CenterPoint, East	7.405	7.34-7.47	7.37-7.44	62	16
NGPL, Midcontinent	7.035	6.96-7.10	7.00-7.07	260	48
Oneok, Okla.	7.170	7.15-7.20	7.16-7.18	26	5
Panhandle, Tx.-Okla.	7.035	6.96-7.11	7.00-7.07	136	28
Southern Star, Tx.-Okla.-Kan.	7.030	7.00-7.10	7.00-7.06	41	6
New Mexico-San Juan Basin					
El Paso, Bondad	6.405	6.34-6.50	6.36-6.45	11	5
El Paso, San Juan Basin	6.385	6.31-6.50	6.34-6.43	460	61

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Gas Daily

Wednesday, June 22, 2005

Despite protests, Senate backs OCS inventory

The Senate voted Tuesday to retain a controversial provision in its comprehensive energy bill calling for an inventory of gas and oil reserves on the Outer Continental Shelf—including areas currently off-limits to drilling.

An amendment offered by a group of coastal-state senators to strike the OCS inventory language was defeated 52-44, assuring that the provision will remain intact.

Inventory opponents argued that the measure, sponsored by Sen. Mary Landrieu, D-La., represents a first step toward opening new OCS lands to exploration and development, which they said would harm the

(continued on page 5)

Bill expected to spur gas drilling in New York

A bill awaiting passage in the New York legislature this week is aimed at stimulating gas development in the state—particularly in the promising Trenton-Black River play—as it would settle some thorny leasing issues that have kept many operators and landowners in court for years.

The existing leasing process has created confusion for well operators about just how royalty income from their gas production is to be divided, and that has pitted producers against property owners and land-leasing companies, explained Brad Gill, executive director of the

(continued on page 4)

Feinstein: Let states veto LNG terminal projects

Sen. Dianne Feinstein plans to introduce an amendment to the comprehensive energy bill today giving governors the authority to veto, approve or attach conditions to onshore liquefied natural gas terminals approved by the federal government.

"Given the sensitive nature of LNG facilities relating to security, I truly believe that states should have a say [in] where these facilities should be built," Feinstein, D-Calif., said in a statement Tuesday. "This amendment will not prevent LNG facilities from being built—it will just ensure that they are built where they pose the least risk to the public."

(continued on page 4)

Reversing course, cash prices fall 5 to 50 cents

THE MARKET

Weak fundamentals across much of North America combined with a tumbling NYMEX contract Tuesday to send cash prices spiraling downward by as much as 50 cents/MMBtu.

In a sharp reversal of Monday's big gains, prices in the Northeast nosedived between 40 cents and a half-dollar as AccuWeather called for demand-sapping temperatures ranging from the low 60s to the low 80s today.

"It was a benign day of trading," one Canadian trader reported.

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.200

Trans. date: 6/21
Flow date(s): 6/22

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.145	6.94-7.26	7.06-7.23	874	116
Waha	7.185	7.00-7.25	7.12-7.25	287	43
Transwestern, Permian Basin	6.550	6.55-6.55	6.55-6.55	21	5
East Texas-North Louisiana Area					
Carthage Hub	7.140	7.10-7.16	7.12-7.16	26	6
NGPL, Texok zone	7.145	7.10-7.18	7.12-7.17	181	22
Texas Eastern, ETX	7.100	7.10 -7.10	7.10 -7.10	10	2
Texas Gas, zone 1	7.375	7.26 -7.42	7.33 -7.42	102	20
East-Houston-Katy					
Houston Ship Channel	7.515	7.40 -7.58	7.47 -7.56	295	24
Katy	7.435	7.35 -7.51	7.39 -7.48	182	13
South-Corpus Christi					
Agua Dulce Hub	7.355	7.28 -7.40	7.32 -7.39	350	26
NGPL, STX	7.195	7.16 -7.20	7.18 -7.20	16	6
Tennessee, zone 0	7.305	7.27 -7.40	7.27 -7.34	353	54
Texas Eastern, STX	7.120	7.03 -7.19	7.08 -7.16	150	25
Transco, zone 1	7.260	7.25 -7.30	7.25 -7.27	12	5
Louisiana-Onshore South					
ANR, La.	7.290	7.24 -7.35	7.26 -7.32	96	23
Columbia Gulf, La.	7.405	7.37 -7.48	7.38 -7.43	112	26
Columbia Gulf, mainline	7.455	7.39 -7.52	7.42 -7.49	188	32
Florida Gas, zone 1	7.400	7.40 -7.40	7.40 -7.40	2	1
Florida Gas, zone 2	—	— —	— —	—	0
Florida Gas, zone 3	7.405	7.33 -7.63	7.33 -7.48	151	30
Henry Hub	7.470	7.37 -7.57	7.42 -7.52	514	67
NGPL, La.	7.310	7.28 -7.35	7.29 -7.33	32	9
Southern Natural, La.	7.405	7.35 -7.46	7.38 -7.43	259	41
Tennessee, La., 500 Leg	7.295	7.22 -7.34	7.26 -7.33	361	50
Tennessee, La., 800 Leg	7.310	7.26 -7.35	7.29 -7.33	256	37
Texas Eastern, WLA	7.320	7.25 -7.34	7.30 -7.34	77	13
Texas Eastern, ELA	7.375	7.31 -7.45	7.34 -7.41	223	38
Texas Gas, zone SL	7.385	7.35 -7.45	7.36 -7.41	174	28
Transco, zone 2	7.340	7.31 -7.37	7.32 -7.36	137	22
Transco, zone 3	7.450	7.37 -7.50	7.42 -7.48	545	74
Trunkline, WLA	7.410	7.37 -7.46	7.39 -7.43	49	5
Trunkline, ELA	7.355	7.30 -7.38	7.33 -7.38	160	27
Oklahoma					
ANR, Okla.	6.895	6.80 -6.95	6.86 -6.93	42	10
CenterPoint, East	7.125	7.09 -7.15	7.11 -7.14	110	19
NGPL, Midcontinent	6.935	6.82 -7.00	6.89 -6.98	209	38
Oneok, Okla.	6.900	6.90 -6.90	6.90 -6.90	19	3
Panhandle, Tx.-Okla.	6.970	6.81 -7.08	6.90 -7.04	161	29
Southern Star, Tx.-Okla.-Kan.	6.900	6.85 -6.90	6.89 -6.90	38	5
New Mexico-San Juan Basin					
El Paso, Bondad	6.340	6.33 -6.34	6.34 -6.34	6	2
El Paso, San Juan Basin	6.340	6.27 -6.39	6.31 -6.37	231	43

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Gas Daily

Friday, June 24, 2005

Chinese raise hackles with bid to buy Unocal

State-owned Chinese National Overseas Oil Co.'s $18.5 billion bid for California-based producer Unocal roiled political and financial waters Thursday as industry analysts were split on the proposal's chances and U.S. government officials called for investigations into the national security ramifications.

CNOOC's $67/share cash offer for Unocal—which had been rumored for days—trumps San Ramon, Calif.-based Chevron's $16.6 billion, $65/share bid made earlier this year and approved by the Federal Trade Commission this month (*GD 6/13*).

Both firms have their eyes on Unocal's Asian gas reserves—Chevron

(continued on page 7)

Montana tribe to open reservation to drilling

The Blackfeet Indian Nation of northwestern Montana plans to open 150,000 acres of its reservation to gas exploration and production in hopes of tapping a wealth of reserves just south of the Canadian border.

The acreage, which abuts Alberta's prolific Pincher Creek and Waterton fields, contains at least 30 Bcf of gas based on two-dimensional seismic surveys of the region, said Ted Bland, a Houston-based consultant working with the tribe.

Under terms of the tribe's request for bids (*see box, page 6*), the Blackfeet hope to lease the land at a minimum bid of $10/acre for an

(continued on page 5)

Plastics industry 'dying' from high gas costs

Members of the Society of the Plastics Industry are unhappy with the Senate's decision not to lift the ban on gas drilling on the Outer Continental Shelf, said Eugene Steadman Jr., chairman of the trade group's energy task force.

The industry has lost 150,000 jobs over the past three years because of high gas prices, and accessing new supplies from the OCS was seen as the best hope for relief, Steadman told *Gas Daily* Thursday after appearing with U.S. senators at a press briefing in Washington, D.C.

Steadman said he had hoped the Senate would take up an

(continued on page 4)

Intense heat wave lifts cash in most regions

THE MARKET

The return of blistering heat across much of the Midwest and Northeast sent cash prices rallying between 20 cents and 30 cents on Thursday, while seasonal weather and a lackadaisical July NYMEX contract lent little support to other markets.

With the National Weather Service calling for a high of 97 degrees today in Chicago and Detroit and 93 degrees in Cleveland, utility demand soared in the upper Midwest and sent spot prices on a tear.

"We're having a hotter summer than last year," one trader said in offering a reason why, with storage inventories at record levels, prices

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.290

Trans. date: 6/23
Flow date(s): 6/24

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.175	7.07-7.27	7.12-7.23	1089	120
Waha	7.195	7.00-7.32	7.11-7.28	510	69
Transwestern, Permian Basin	6.595	6.55-6.62	6.58-6.61	26	5
East Texas-North Louisiana Area					
Carthage Hub	7.285	7.25-7.32	7.27-7.30	14	4
NGPL, Texok zone	7.350	7.23-7.41	7.30-7.40	130	20
Texas Eastern, ETX	—	— —	— —	—	0
Texas Gas, zone 1	7.510	7.47-7.54	7.49-7.53	75	14
East-Houston-Katy					
Houston Ship Channel	7.510	7.42-7.58	7.47-7.55	238	24
Katy	7.465	7.37-7.56	7.42-7.51	161	19
South-Corpus Christi					
Agua Dulce Hub	7.415	7.32-7.49	7.37-7.46	341	25
NGPL, STX	7.340	7.34-7.35	7.34-7.34	9	4
Tennessee, zone 0	7.370	7.33-7.45	7.34-7.40	334	52
Texas Eastern, STX	7.250	7.20-7.31	7.22-7.28	121	25
Transco, zone 1	7.395	7.34-7.42	7.37-7.42	26	8
Louisiana-Onshore South					
ANR, La.	7.410	7.36-7.45	7.39-7.43	150	35
Columbia Gulf, La.	7.470	7.42-7.52	7.44-7.50	195	34
Columbia Gulf, mainline	7.550	7.51-7.57	7.53-7.57	85	16
Florida Gas, zone 1	7.425	7.40-7.49	7.40-7.45	9	2
Florida Gas, zone 2	7.495	7.49-7.51	7.49-7.50	30	2
Florida Gas, zone 3	7.470	7.44-7.54	7.44-7.50	134	22
Henry Hub	7.505	7.44-7.56	7.47-7.54	546	78
NGPL, La.	7.395	7.33-7.43	7.37-7.42	72	11
Southern Natural, La.	7.480	7.45-7.51	7.46-7.50	178	33
Tennessee, La., 500 Leg	7.380	7.32-7.46	7.34-7.42	255	48
Tennessee, La., 800 Leg	7.350	7.32-7.40	7.33-7.37	179	27
Texas Eastern, WLA	7.395	7.37-7.42	7.38-7.41	45	9
Texas Eastern, ELA	7.445	7.38-7.49	7.42-7.47	182	33
Texas Gas, zone SL	7.500	7.48-7.54	7.48-7.52	72	13
Transco, zone 2	7.440	7.41-7.47	7.42-7.46	131	18
Transco, zone 3	7.515	7.45-7.56	7.49-7.54	553	79
Trunkline, WLA	7.480	7.47-7.49	7.47-7.49	29	4
Trunkline, ELA	7.470	7.44-7.52	7.45-7.49	106	26
Oklahoma					
ANR, Okla.	6.915	6.87-6.94	6.90-6.93	38	11
CenterPoint, East	7.300	7.21-7.37	7.26-7.34	118	20
NGPL, Midcontinent	6.890	6.84-6.93	6.87-6.91	163	39
Oneok, Okla.	6.995	6.98-7.05	6.98-7.01	17	4
Panhandle, Tx.-Okla.	6.940	6.89-7.04	6.90-6.98	107	26
Southern Star, Tx.-Okla.-Kan.	6.945	6.91-6.95	6.93-6.95	24	4
New Mexico-San Juan Basin					
El Paso, Bondad	6.340	6.31-6.35	6.33-6.35	32	6
El Paso, San Juan Basin	6.340	6.30-6.40	6.31-6.37	295	37

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Gas Daily

Monday, June 27, 2005

Auditor: Mass. working to fix LNG safety issues

The Massachusetts Dept. of Telecommunications and Energy has improved its oversight of safety procedures at liquefied natural gas storage facilities after an audit showed DTE was not fulfilling its responsibilities, state auditor Joe DeNucci said in a report Friday.

An audit that began last October found that the DTE was not enforcing its requirement that operators of LNG plants develop and submit fire study and prevention plans, evacuation plans, and annual operator training reports, according to DeNucci's office.

"When requested, the DTE could not provide us with copies of the required plans and agreed that they were not in compliance," according

(continued on page 6)

Group fights plan to drill off Mississippi coast

An unlikely coalition of real estate developers, casino owners and environmental groups is rebelling against the state of Mississippi's plans to conduct seismic tests off the Gulf Islands National Seashore and then drill for any gas found in state waters there.

But a spokesman for Mississippi Gov. Haley Barbour said the Republican governor does not plan to accede to the 12 Miles South Coalition's request to introduce legislation this week banning such drilling.

Robert Barq, a Biloxi real estate developer, said in an interview

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Panel urges rejection of California energy plan

A citizens' panel recommended last week that the California Legislature reject Gov. Arnold Schwarzenegger's plan to reorganize the state's energy regulatory function by shifting oversight of gas pipeline and power transmission facilities to a different agency.

Schwarzenegger had proposed creating a state Energy Dept. and a Secretary of Energy post to strengthen oversight of the state's gas, electricity and other energy industries. But his proposal also included a plan to streamline permitting of new gas pipeline and power transmission projects by transferring jurisdiction from the

(continued on page 4)

Cash prices hot in Northeast, cool elsewhere

THE MARKET

Competing market forces led to a volatile cash market Friday, with prices tumbling as much as 35 cents in some regions while gaining a few pennies in the sweltering Northeast.

Forecasts for unseasonably hot weather from the Mid-Atlantic states to New England over the weekend brought buyers out in force, sending city-gate prices up about a nickel on average. AccuWeather called for temperatures in the mid-90s in Boston and New York on Saturday, creating enough cooling load to offset a morning drop on the July

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.210

Trans. date: 6/24
Flow date(s): 6/25-27

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.905	6.84-7.02	6.86-6.95	483	70
Waha	6.955	6.55-7.10	6.82-7.09	387	52
Transwestern, Permian Basin	6.475	6.40-6.57	6.43-6.52	51	10
East Texas-North Louisiana Area					
Carthage Hub	7.250	7.20-7.26	7.23-7.26	33	4
NGPL, Texok zone	7.270	7.22-7.33	7.24-7.30	200	29
Texas Eastern, ETX	7.140	7.14-7.14	7.14-7.14	1	1
Texas Gas, zone 1	7.425	7.35-7.48	7.39-7.46	52	14
East-Houston-Katy					
Houston Ship Channel	7.490	7.25-7.57	7.41-7.57	402	39
Katy	7.455	7.40-7.51	7.43-7.48	290	26
South-Corpus Christi					
Agua Dulce Hub	7.395	7.30-7.42	7.36-7.42	199	14
NGPL, STX	7.275	7.20-7.30	7.25-7.30	8	3
Tennessee, zone 0	7.345	7.26-7.42	7.30-7.39	266	49
Texas Eastern, STX	7.290	7.25-7.35	7.26-7.32	76	17
Transco, zone 1	7.380	7.35-7.40	7.37-7.39	14	5
Louisiana-Onshore South					
ANR, La.	7.345	7.30-7.42	7.31-7.38	198	38
Columbia Gulf, La.	7.420	7.35-7.45	7.39-7.45	147	30
Columbia Gulf, mainline	7.475	7.43-7.55	7.44-7.51	125	25
Florida Gas, zone 1	7.415	7.41-7.42	7.41-7.42	36	4
Florida Gas, zone 2	7.470	7.47-7.47	7.47-7.47	10	3
Florida Gas, zone 3	7.505	7.48-7.57	7.48-7.53	118	16
Henry Hub	7.460	7.34-7.50	7.42-7.50	299	41
NGPL, La.	7.345	7.28-7.37	7.32-7.37	39	7
Southern Natural, La.	7.430	7.32-7.49	7.39-7.47	168	30
Tennessee, La., 500 Leg	7.390	7.34-7.42	7.37-7.41	281	43
Tennessee, La., 800 Leg	7.385	7.34-7.41	7.37-7.40	250	37
Texas Eastern, WLA	7.370	7.31-7.40	7.35-7.39	80	18
Texas Eastern, ELA	7.395	7.30-7.42	7.36-7.42	208	39
Texas Gas, zone SL	7.440	7.34-7.47	7.41-7.47	140	21
Transco, zone 2	7.445	7.40-7.48	7.42-7.47	69	11
Transco, zone 3	7.515	7.46-7.54	7.49-7.54	429	63
Trunkline, WLA	7.475	7.43-7.48	7.46-7.48	22	3
Trunkline, ELA	7.385	7.35-7.42	7.37-7.40	141	23
Oklahoma					
ANR, Okla.	6.815	6.76-6.86	6.79-6.84	35	7
CenterPoint, East	7.235	7.15-7.26	7.21-7.26	104	16
NGPL, Midcontinent	6.775	6.74-6.79	6.76-6.79	223	37
Oneok, Okla.	6.990	6.95-7.03	6.97-7.01	27	6
Panhandle, Tx.-Okla.	6.855	6.80-6.90	6.83-6.88	111	27
Southern Star, Tx.-Okla.-Kan.	6.860	6.80-6.92	6.83-6.89	63	12
New Mexico-San Juan Basin					
El Paso, Bondad	6.070	6.03-6.08	6.06-6.08	35	6
El Paso, San Juan Basin	6.105	6.05-6.20	6.07-6.14	284	37

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Gas Daily

Tuesday, June 28, 2005

Chinese firm pledges to retain Unocal's jobs

Pledging to keep California-based Unocal's work force on the job and boost the company's Gulf of Mexico gas production, the CEO of state-owned China National Offshore Oil Corp. on Monday sent a letter to all members of Congress asking for an immediate, full-scale review of CNOOC's $19.6 billion bid for Unocal.

The letter is part of a newly launched public relations blitz aimed at assuaging fears that a merger of an American exploration-and-production company with a Chinese conglomerate would harm U.S. interests.

It also comes as U.S. lawmakers' rhetoric against Chinese trade and monetary policies escalates. Since CNOOC first announced the Unocal

(continued on page 5)

Woodside ends joint LNG deal, eyes own project

Australia's Woodside Petroleum said Monday it is considering developing its own liquefied natural gas receiving terminal off the U.S. West Coast after withdrawing from a proposed joint venture with Crystal Energy.

The two firms signed an agreement in October 2004 under which Woodside committed to providing technical expertise and funding to expedite project approvals for the development of the Clearwater Port off Ventura County, Calif., in return for preferential rights to access the terminal's 800,000 Mcf/day of capacity.

(continued on page 4)

Study: Energy trading sector will keep growing

Driven by higher commodity prices and volatility, the energy trading sector will continue expanding through at least 2006, particularly as the natural gas and power markets recover from their post-Enron slump, according to a new study.

"Elevated prices and increased instability in energy commodity are driving increased activity in energy trading and risk management," said Jill Feblowitz, program director for Energy Insights, a subsidiary of Framingham, Mass.-based IDC, which specializes in technology analysis and consulting.

(continued on page 3)

NYMEX falls another 22.2 cents; cash retreats

THE MARKET

The July NYMEX futures contract continued its downward spiral toward the $7/MMBtu mark on Monday, dropping another 22.2 cents to settle at $7.138 as traders liquidated some length ahead of today's contract expiration.

The downturn, which came on the heels of an 11.3-cent decline on Friday, "was a little surprising considering the hot weather we've had throughout the weekend," an analyst said.

Despite expectations for unseasonably high temperatures and strong electricity demand in some regions this week, market players apparently

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.070

Trans. date: 6/27
Flow date(s): 6/28

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.805	6.75-6.90	6.77-6.84	550	79
Waha	6.860	6.70-6.99	6.79-6.93	596	73
Transwestern, Permian Basin	6.345	6.34-6.36	6.34-6.35	20	6
East Texas-North Louisiana Area					
Carthage Hub	7.115	7.08-7.15	7.10-7.13	27	7
NGPL, Texok zone	7.145	7.10-7.19	7.12-7.17	204	40
Texas Eastern, ETX	7.000	7.00 -7.00	7.00 -7.00	5	2
Texas Gas, zone 1	7.250	7.21 -7.28	7.23 -7.27	83	14
East-Houston-Katy					
Houston Ship Channel	7.295	7.26 -7.34	7.27 -7.32	277	26
Katy	7.250	7.19 -7.28	7.23 -7.27	250	25
South-Corpus Christi					
Agua Dulce Hub	7.205	7.18 -7.23	7.19 -7.22	189	16
NGPL, STX	7.150	7.15 -7.16	7.15 -7.15	10	3
Tennessee, zone 0	7.175	7.15 -7.20	7.16 -7.19	246	38
Texas Eastern, STX	7.085	7.06 -7.11	7.07 -7.10	129	29
Transco, zone 1	7.260	7.24 -7.28	7.25 -7.27	13	3
Louisiana-Onshore South					
ANR, La.	7.210	7.17 -7.25	7.19 -7.23	235	45
Columbia Gulf, La.	7.260	7.21 -7.29	7.24 -7.28	151	40
Columbia Gulf, mainline	7.320	7.28 -7.36	7.30 -7.34	123	23
Florida Gas, zone 1	7.320	7.26 -7.33	7.30 -7.33	116	7
Florida Gas, zone 2	7.315	7.28 -7.33	7.30 -7.33	124	10
Florida Gas, zone 3	7.400	7.36 -7.43	7.38 -7.42	157	19
Henry Hub	7.290	7.22 -7.33	7.26 -7.32	542	63
NGPL, La.	7.175	7.15 -7.19	7.16 -7.19	15	4
Southern Natural, La.	7.265	7.20 -7.30	7.24 -7.29	384	50
Tennessee, La., 500 Leg	7.225	7.18 -7.25	7.21 -7.24	309	53
Tennessee, La., 800 Leg	7.215	7.18 -7.24	7.20 -7.23	248	40
Texas Eastern, WLA	7.245	7.21 -7.27	7.23 -7.26	39	9
Texas Eastern, ELA	7.260	7.19 -7.29	7.23 -7.29	228	27
Texas Gas, zone SL	7.270	7.22 -7.29	7.25 -7.29	144	27
Transco, zone 2	7.285	7.27 -7.30	7.28 -7.29	70	9
Transco, zone 3	7.345	7.31 -7.36	7.33 -7.36	469	71
Trunkline, WLA	7.250	7.20 -7.29	7.23 -7.27	48	8
Trunkline, ELA	7.240	7.22 -7.26	7.23 -7.25	86	17
Oklahoma					
ANR, Okla.	6.740	6.72 -6.82	6.72 -6.77	51	10
CenterPoint, East	7.090	7.04 -7.15	7.06 -7.12	152	18
NGPL, Midcontinent	6.715	6.67 -6.76	6.69 -6.74	206	42
Oneok, Okla.	6.845	6.80 -6.88	6.82 -6.87	29	7
Panhandle, Tx.-Okla.	6.745	6.72 -6.82	6.72 -6.77	153	36
Southern Star, Tx.-Okla.-Kan.	6.770	6.77 -6.77	6.77 -6.77	4	1
New Mexico-San Juan Basin					
El Paso, Bondad	6.095	6.08 -6.14	6.08 -6.11	27	6
El Paso, San Juan Basin	6.105	6.06 -6.14	6.08 -6.13	335	38

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Gas Daily

Wednesday, June 29, 2005

Senate passes energy bill; House talks hopeful

The Senate overwhelmingly passed a comprehensive energy bill Tuesday designed to boost natural gas supplies and provide incentives for the production and use of renewable energy.

On a vote of 85-12, the Senate capped two weeks of intense debate that held together bipartisan agreements despite periodic threats from Florida senators to filibuster the bill if it eased federal moratoria on gas drilling in the Outer Continental Shelf.

The United States is "one step closer to greater energy security," Energy Secretary Samuel Bodman told reporters after the vote.

The Senate enters House-led conference negotiations to reconcile the

(continued on page 6)

Canada, U.S. Northeast foresee LNG windfall

Increasing the liquefied natural gas profile of Atlantic Canada and the U.S. Northeast could benefit both at the expense of neither, officials and analysts said Monday at an LNG symposium in Halifax, Nova Scotia.

LNG will make up 10% to 15% of U.S. gas supplies within a decade, and "there are very significant first-mover advantages" to those companies that can get their projects operating first, said Benjamin Schlesinger, president of Bethesda, Md.-based consultancy Benjamin Schlesinger and Associates.

Brian Lee Crowley, president of the Atlantic Institute for Market

(continued on page 5)

Barton: CNOOC's Unocal offer 'security threat'

The level of rhetoric in opposition to state-owned China National Offshore Oil Corp.'s $19.6 billion bid for Unocal ratcheted up a level in Washington Monday with the head of the House Energy and Commerce committee calling the proposed acquisition a "clear and direct threat to the energy and national security of the United States."

U.S. Rep. Joe Barton, R-Texas, said the proposed acquisition not only would put valuable energy assets in the hand of an aggressive Chinese government but would allow for the transfer of advanced U.S. technologies to the Asian giant.

(continued on page 4

Expiring NYMEX drags cash down 20 to 40 cents

THE MARKET

The July NYMEX gas futures contract lost 16.2 cents Tuesday, the third straight day of losses, to settle at $6.976/MMBtu as market players continued to liquidate positions ahead of expiration. The cash market rode the contract down 20 to 40 cents, ignoring the effects of heat-related demand in many parts of the country.

The July gas futures contract has lost a total of 49.7 cents over the past three sessions. A broker said the market continued to work off overbought conditions from earlier in the month, when weather-related

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.840

Trans. date: 6/28
Flow date(s): 6/29

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.585	6.50-6.78	6.51-6.66	585	83
Waha	6.610	6.36-6.90	6.47-6.75	399	65
Transwestern, Permian Basin	6.000	6.00-6.00	6.00-6.00	3	1
East Texas-North Louisiana Area					
Carthage Hub	6.830	6.80-6.85	6.82-6.84	21	7
NGPL, Texok zone	6.905	6.87-6.95	6.88-6.93	297	43
Texas Eastern, ETX	6.700	6.70-6.70	6.70-6.70	6	2
Texas Gas, zone 1	7.005	6.93-7.07	6.97-7.04	72	15
East-Houston-Katy					
Houston Ship Channel	7.040	7.01-7.08	7.02-7.06	275	25
Katy	7.010	6.92-7.05	6.98-7.04	196	19
South-Corpus Christi					
Agua Dulce Hub	6.935	6.91-6.98	6.92-6.95	149	10
NGPL, STX	6.920	6.90-6.93	6.91-6.93	6	5
Tennessee, zone 0	6.935	6.88-7.03	6.90-6.97	298	45
Texas Eastern, STX	6.885	6.78-7.02	6.82-6.95	119	25
Transco, zone 1	6.910	6.90-6.93	6.90-6.92	6	6
Louisiana-Onshore South					
ANR, La.	6.970	6.92-7.04	6.94-7.00	90	20
Columbia Gulf, La.	7.005	6.97-7.05	6.98-7.03	118	18
Columbia Gulf, mainline	7.065	7.02-7.18	7.02-7.11	139	20
Florida Gas, zone 1	7.035	7.00-7.05	7.02-7.05	91	7
Florida Gas, zone 2	7.050	7.00-7.08	7.03-7.07	127	10
Florida Gas, zone 3	7.125	7.08-7.17	7.10-7.15	90	14
Henry Hub	7.055	6.99-7.15	7.01-7.10	746	90
NGPL, La.	6.935	6.91-6.99	6.91-6.96	26	5
Southern Natural, La.	7.040	7.01-7.10	7.02-7.06	261	37
Tennessee, La., 500 Leg	7.005	6.93-7.07	6.97-7.04	518	78
Tennessee, La., 800 Leg	6.980	6.96-7.10	6.96-7.02	87	20
Texas Eastern, WLA	7.005	6.95-7.04	6.98-7.03	104	21
Texas Eastern, ELA	7.005	6.94-7.18	6.94-7.07	163	34
Texas Gas, zone SL	7.020	6.97-7.12	6.98-7.06	94	17
Transco, zone 2	7.065	7.04-7.12	7.04-7.09	73	10
Transco, zone 3	7.090	7.06-7.21	7.06-7.13	536	87
Trunkline, WLA	7.050	7.05-7.05	7.05-7.05	10	1
Trunkline, ELA	6.990	6.96-7.02	6.97-7.01	42	9
Oklahoma					
ANR, Okla.	6.455	6.42-6.68	6.42-6.52	42	9
CenterPoint, East	6.855	6.83-6.90	6.84-6.87	135	24
NGPL, Midcontinent	6.505	6.41-6.70	6.43-6.58	150	28
Oneok, Okla.	6.630	6.60-6.67	6.61-6.65	56	6
Panhandle, Tx.-Okla.	6.505	6.40-6.67	6.44-6.57	232	46
Southern Star, Tx.-Okla.-Kan.	6.600	6.60-6.60	6.60-6.60	4	1
New Mexico-San Juan Basin					
El Paso, Bondad	5.775	5.66-5.87	5.72-5.83	23	5
El Paso, San Juan Basin	5.810	5.70-5.92	5.75-5.87	194	24

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Gas Daily

Thursday, June 30, 2005

White House to name Kelliher chairman of FERC

President Bush plans to elevate Commissioner Joseph Kelliher to the FERC chairman's seat as early as today, replacing the retiring Pat Wood III, several sources said Wednesday.

White House personnel officials were alerting congressional leaders Wednesday afternoon of Bush's intention to name Kelliher, a Republican, to the post, the sources said.

In April, Wood announced that he will leave FERC and return to his native Texas when his term expires today. There had been active speculation for months about Wood's eventual replacement, with various state regulators mentioned.

(continued on page 5)

French firm ramps up U.S. gas trading operation

French conglomerate Societe Generale is expanding its U.S. gas and power trading operation with the hiring of six senior traders in its New York City office, the firm's SG Corporate & Investment Banking arm announced Wednesday.

The move follows Lehman Brothers' move earlier this month to recruit senior personnel for a new energy trading business (*GD 6/23*) and a recent infusion into the gas and power markets by such Wall Street firms as Merrill Lynch, UBS and Goldman Sachs.

"The expansion in natural gas and power trading builds upon SG

(continued on page 5)

Calpine to unload gas reserves for $1.05 billion

Debt-laden merchant power generator Calpine said Tuesday it would sell 383 Bcf-equivalent of gas and oil reserves for $1.05 billion to a newly created indirect subsidiary.

The new company will be headed by the Houston managers of Calpine's in-house exploration-and-production unit, Calpine Fuels Co., sources familiar with the deal told *Gas Daily*.

The fuels division managers will be backed by $725 million in private capital from a consortium of institutional lenders and have access to $325 million in credit. When the sale closes next week,

(continued on page 4)

Heat, humidity lend support to cash market

THE MARKET

The cash market responded to sustained heat across much of the country and a small gain on the August NYMEX futures contract Wednesday to climb between a dime and 20 cents in most regions. In the West, however, prices at some points lost ground on threats of a second day of high-inventory operational flow orders.

The PG&E city-gate experienced weakness early, although prices climbed as the morning progressed as concerns about an OFO were allayed. Consequently, PG&E prices traded in a relatively wide 25-cent

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.930

Trans. date: 6/29
Flow date(s): 6/30

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.770	6.60-6.92	6.69-6.85	646	105
Waha	6.800	6.58-6.92	6.71-6.89	409	59
Transwestern, Permian Basin	6.000	6.00-6.00	6.00-6.00	11	3
East Texas-North Louisiana Area					
Carthage Hub	6.960	6.90-6.98	6.94-6.98	39	7
NGPL, Texok zone	6.995	6.91-7.05	6.96-7.03	392	52
Texas Eastern, ETX	7.085	6.80 -7.25	6.97 -7.20	17	3
Texas Gas, zone 1	7.095	7.05 -7.16	7.07 -7.12	56	12
East-Houston-Katy					
Houston Ship Channel	7.080	7.04 -7.20	7.04 -7.12	274	21
Katy	7.055	7.03 -7.09	7.04 -7.07	89	7
South-Corpus Christi					
Agua Dulce Hub	7.015	6.97 -7.09	6.98 -7.05	173	12
NGPL, STX	6.990	6.95 -7.00	6.98 -7.00	4	4
Tennessee, zone 0	7.020	6.96 -7.07	6.99 -7.05	312	41
Texas Eastern, STX	6.970	6.91 -7.02	6.94 -7.00	207	40
Transco, zone 1	7.105	7.09 -7.12	7.10 -7.11	33	11
Louisiana-Onshore South					
ANR, La.	7.040	7.00 -7.09	7.02 -7.06	110	23
Columbia Gulf, La.	7.120	7.06 -7.16	7.09 -7.15	196	31
Columbia Gulf, mainline	7.180	7.13 -7.21	7.16 -7.20	145	23
Florida Gas, zone 1	7.095	7.05 -7.16	7.07 -7.12	60	7
Florida Gas, zone 2	7.110	7.07 -7.20	7.08 -7.14	103	9
Florida Gas, zone 3	7.210	7.16 -7.25	7.19 -7.23	121	16
Henry Hub	7.075	7.00 -7.20	7.02 -7.13	638	87
NGPL, La.	7.055	6.97 -7.10	7.02 -7.09	21	5
Southern Natural, La.	7.130	7.07 -7.18	7.10 -7.16	302	36
Tennessee, La., 500 Leg	7.065	6.94 -7.14	7.01 -7.12	371	56
Tennessee, La., 800 Leg	7.070	6.99 -7.12	7.04 -7.10	223	38
Texas Eastern, WLA	7.050	7.00 -7.15	7.01 -7.09	65	15
Texas Eastern, ELA	7.095	7.03 -7.15	7.06 -7.13	265	35
Texas Gas, zone SL	7.095	7.04 -7.16	7.06 -7.13	115	16
Transco, zone 2	7.150	7.15 -7.15	7.15 -7.15	37	8
Transco, zone 3	7.180	7.10 -7.24	7.14 -7.22	544	70
Trunkline, WLA	7.095	7.07 -7.15	7.07 -7.12	23	5
Trunkline, ELA	7.075	7.01 -7.12	7.05 -7.10	84	18
Oklahoma					
ANR, Okla.	6.665	6.65 -6.71	6.65 -6.68	33	9
CenterPoint, East	6.950	6.88 -7.02	6.91 -6.99	126	13
NGPL, Midcontinent	6.675	6.59 -6.71	6.64 -6.71	139	39
Oneok, Okla.	6.720	6.65 -6.74	6.70 -6.74	55	7
Panhandle, Tx.-Okla.	6.670	6.60 -6.72	6.64 -6.70	173	44
Southern Star, Tx.-Okla.-Kan.	6.655	6.65 -6.68	6.65 -6.66	44	3
New Mexico-San Juan Basin					
El Paso, Bondad	5.635	5.59 -5.70	5.61 -5.66	59	11
El Paso, San Juan Basin	5.615	5.58 -5.76	5.58 -5.66	401	42

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Gas Daily

Friday, July 1, 2005

FERC backs two LNG projects, rejects KeySpan's

FERC on Thursday approved another Gulf Coast liquefied natural gas terminal and gave its blessing to a contentious LNG import facility in New England. But the commission rejected KeySpan LNG's proposed terminal expansion in Providence, R.I., saying it would not meet federal safety standards.

Over the objections of Commissioner Suedeen Kelly, FERC approved Weaver's Cove Energy's import terminal in Fall River, Mass. If built, the terminal and related pipeline system will include a 4.4-Bcf LNG storage tank, vaporization equipment sized for a send-out of 400,000 Mcf/day and two 24-inch-diameter pipelines.

(continued on page 5)

FERC approves $13 billion Exelon/PSEG merger

FERC on Thursday approved Exelon's $13 billion acquisition of Newark, N.J.-based Public Service Enterprise Group, a deal that would create the nation's largest gas and electric utility company.

The commission said the proposed mega-merger is in the public interest and would bring benefits to consumers in the two utilities' service territories.

Chicago-based Exelon announced its plans to acquire PSEG in December (*GD 12/21*) and the two companies filed their proposal with FERC in February. The plan drew intense opposition from some

(continued on page 5)

XTO spreads wings—again—with Piceance deal

XTO Energy, in a move that signals an expansion into yet another gas play, said Thursday it has signed a deal with ExxonMobil to develop acreage in the northeastern corner of the Piceance Basin in Colorado.

Under terms of the deal, XTO will "farm in" about 69,500 contiguous gross acres east of ExxonMobil's Piceance Creek Unit in Rio Blanco and Garfield counties. XTO will operate and earn 50% working interest ownership in the entire leasehold position by drilling four wells.

Fort Worth, Texas-based XTO said it plans to begin drilling the first

(continued on page 4)

Spot prices stronger in West, weaker elsewhere

THE MARKET

The Southwest was the only region to see a decisive move in spot prices Thursday as some points gained more than 30 cents. Other markets were mixed as traders sorted out conflicting fundamentals ahead of the long holiday weekend.

Prices received no support from the August NYMEX futures contract, which bounced around like a pinball, and many traders sat on the sidelines waiting for some sense of which way the market ultimately would go. According to one source, "People were trying to figure out what to do."

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.830

Trans. date: 6/30
Flow date(s): 7/01

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.560	6.45-6.70	6.50-6.62	537	88
Waha	6.590	6.50-6.68	6.54-6.64	734	94
Transwestern, Permian Basin	6.100	6.10-6.10	6.10-6.10	14	1
East Texas-North Louisiana Area					
Carthage Hub	6.845	6.80-6.90	6.82-6.87	85	16
NGPL, Texok zone	6.890	6.80-6.95	6.85-6.93	426	64
Texas Eastern, ETX	6.780	6.78-6.78	6.78-6.78	13	2
Texas Gas, zone 1	7.015	6.99-7.06	7.00-7.03	63	12
East-Houston-Katy					
Houston Ship Channel	6.985	6.94-7.01	6.97-7.00	377	40
Katy	6.955	6.93-7.00	6.94-6.97	270	29
South-Corpus Christi					
Agua Dulce Hub	6.900	6.85-6.92	6.88-6.92	204	17
NGPL, STX	6.865	6.84-6.88	6.85-6.88	39	5
Tennessee, zone 0	6.880	6.85-6.91	6.86-6.90	362	51
Texas Eastern, STX	6.795	6.77-6.84	6.78-6.81	217	35
Transco, zone 1	6.955	6.93-6.98	6.94-6.97	110	17
Louisiana-Onshore South					
ANR, La.	6.925	6.90-6.96	6.91-6.94	131	31
Columbia Gulf, La.	7.015	6.95-7.10	6.98-7.05	187	32
Columbia Gulf, mainline	7.065	7.02-7.10	7.04-7.09	137	17
Florida Gas, zone 1	7.020	7.00-7.03	7.01-7.03	200	14
Florida Gas, zone 2	7.070	7.04-7.12	7.05-7.09	93	9
Florida Gas, zone 3	7.175	7.12-7.18	7.16-7.18	71	11
Henry Hub	7.015	6.97-7.12	6.98-7.05	1138	114
NGPL, La.	6.915	6.90-6.94	6.90-6.93	47	6
Southern Natural, La.	7.000	6.96-7.04	6.98-7.02	161	24
Tennessee, La., 500 Leg	6.955	6.90-7.10	6.90-7.01	540	84
Tennessee, La., 800 Leg	6.935	6.90-6.97	6.92-6.95	226	38
Texas Eastern, WLA	6.880	6.86-6.95	6.86-6.90	54	17
Texas Eastern, ELA	6.960	6.91-7.05	6.92-7.00	204	32
Texas Gas, zone SL	7.005	6.95-7.05	6.98-7.03	155	31
Transco, zone 2	7.015	7.00-7.09	7.00-7.04	66	14
Transco, zone 3	7.070	7.02-7.15	7.04-7.10	595	80
Trunkline, WLA	6.975	6.97-6.98	6.97-6.98	24	4
Trunkline, ELA	6.930	6.90-6.96	6.91-6.95	49	12
Oklahoma					
ANR, Okla.	6.455	6.44-6.49	6.44-6.47	22	9
CenterPoint, East	6.780	6.72-6.89	6.74-6.82	176	31
NGPL, Midcontinent	6.475	6.42-6.51	6.45-6.50	308	52
Oneok, Okla.	6.510	6.45-6.55	6.48-6.54	44	8
Panhandle, Tx.-Okla.	6.470	6.42-6.55	6.44-6.50	380	56
Southern Star, Tx.-Okla.-Kan.	6.510	6.48-6.55	6.49-6.53	28	8
New Mexico-San Juan Basin					
El Paso, Bondad	5.990	5.90-6.05	5.95-6.03	35	6
El Paso, San Juan Basin	5.995	5.84-6.05	5.94-6.05	421	70

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Gas Daily

Friday, September 2, 2005

October NYMEX settles at record-high $11.757

THE MARKET

The October NYMEX futures contract on Thursday settled at another prompt-month record high—$11.757/MMBtu—as a flurry of damage reports stemming from Hurricane Katrina and a bullish storage inventory report lifted the contract 28.5 cents.

"Nobody knows what the commodity is worth," said a Miami-based broker. "Nobody can tell us how much damage has been done and how long the impact will be. So you'll continue to have the wild volatility in the market."

The October contract opened at $11.25, down 22.2 cents from Wednesday's close, and slid to a low of $11.225 before surging to $11.90

(continued on page 2)

Rig crews return, but 79% of gas still curtailed

Gulf of Mexico producers repopulated nearly half of their evacuated platforms Thursday, although about 79% of gas production remained shut in as downstream pipelines and processing plants had difficulty ramping up because of widespread electricity outages caused by Hurricane Katrina.

The Minerals Management Service said producers had remanned 49% of the Gulf's 819 production platforms and returned 479,000 Mcf/day of gas to production, leaving 7.87 Bcf/day curtailed.

Offshore, reports of damaged rigs and platforms increased to at least

(continued on page 5)

Pioneer to exit deepwater Gulf, buy back shares

Pioneer Natural Resources on Thursday announced plans to exit the deepwater Gulf of Mexico, sell its non-operated assets in Argentina and launch a $1 billion share buyback program.

The initiatives will result in "a smaller, focused company with a stronger platform for growth," Dallas-based Pioneer said.

As a result of the planned asset sales, Pioneer will reduce its exploration budget for 2006 to 15% to 20% of total capital from its current level of 30%. The company also said it would reallocate a large chunk of capital from exploration drilling to onshore development and

(continued on page 4)

Analysts now doubt storage will reach 3.3 Tcf

With another lower-than-expected gas storage build reported Thursday, and with Hurricane Katrina's damage to production infrastructure still unknown, several analysts concurred this week that gas storage inventories won't match last year's record level.

The Energy Information Administration on Thursday reported a net injection of 58 Bcf for the week ending Aug. 26, raising stocks nationwide to 2.633 Tcf. In the same week of 2004, EIA reported an 81-Bcf build and 2.683 Tcf in storage.

(continued on page 3)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/01
Flow date(s): 9/02

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.365	9.10-9.75	9.20-9.53	507	80
Waha	9.305	8.75-9.75	9.05-9.56	610	82
Transwestern, Permian Basin	9.005	8.85-9.10	8.94-9.07	6	3
East Texas-North Louisiana Area					
Carthage Hub	9.730	9.35-10.15	9.53-9.93	116	18
NGPL, Texok zone	9.940	9.70-10.22	9.81-10.07	345	66
Texas Eastern, ETX	9.580	9.30-10.50	9.30-9.88	23	6
Texas Gas, zone 1	11.270	11.18-11.35	11.23-11.31	91	19
East-Houston-Katy					
Houston Ship Channel	10.160	10.02-11.15	10.02-10.44	253	23
Katy	10.160	10.05-10.60	10.05-10.30	406	39
South-Corpus Christi					
Agua Dulce Hub	10.125	10.00-10.25	10.06-10.19	122	10
NGPL, STX	10.125	9.81-10.23	10.02-10.23	22	4
Tennessee, zone 0	10.185	10.00-10.50	10.06-10.31	474	62
Texas Eastern, STX	10.070	10.00-10.45	10.00-10.18	197	39
Transco, zone 1	10.010	9.99-10.25	9.99-10.08	31	6
Louisiana-Onshore South					
ANR, La.	11.355	11.23-11.45	11.30-11.41	127	23
Columbia Gulf, La.	11.345	11.26-11.80	11.26-11.48	296	47
Columbia Gulf, mainline	11.430	11.40-11.49	11.41-11.45	52	15
Florida Gas, zone 1	14.060	14.00-15.00	14.00-14.31	85	2
Florida Gas, zone 2	15.045	12.60-15.50	14.32-15.50	100	10
Florida Gas, zone 3	15.930	15.00-16.50	15.55-16.31	184	10
Henry Hub	11.365	11.24-12.20	11.24-11.61	805	88
NGPL, La.	11.130	10.95-11.25	11.05-11.21	20	7
Southern Natural, La.	12.760	11.90-13.10	12.46-13.06	85	9
Tennessee, La., 500 Leg	11.615	11.45-11.80	11.53-11.70	71	6
Tennessee, La., 800 Leg	11.375	11.20-11.65	11.26-11.49	218	32
Texas Eastern, WLA	11.125	11.05-11.70	11.05-11.29	287	36
Texas Eastern, ELA	11.585	11.50-12.10	11.50-11.74	48	10
Texas Gas, zone SL	11.350	11.22-11.80	11.22-11.50	142	22
Transco, zone 2	10.745	10.25-11.25	10.49-11.00	132	19
Transco, zone 3	12.200	11.78-12.50	12.02-12.38	404	49
Trunkline, WLA	11.295	11.25-11.30	11.28-11.30	17	4
Trunkline, ELA	11.430	11.30-11.50	11.38-11.48	3	3
Oklahoma					
ANR, Okla.	9.290	9.22-9.33	9.26-9.32	43	10
CenterPoint, East	9.660	9.45-10.05	9.51-9.81	162	31
NGPL, Midcontinent	9.335	9.18-9.55	9.24-9.43	92	19
Oneok, Okla.	9.395	9.39-9.44	9.39-9.41	36	2
Panhandle, Tx.-Okla.	9.270	9.10-9.35	9.21-9.33	273	42
Southern Star, Tx.-Okla.-Kan.	9.250	9.18-9.30	9.22-9.28	65	7
New Mexico-San Juan Basin					
El Paso, Bondad	8.710	8.69-8.74	8.70-8.72	73	14
El Paso, San Juan Basin	8.780	8.65-8.95	8.70-8.86	149	36

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Gas Daily

Tuesday, September 6, 2005

Market 'on edge' as NYMEX holds near $12

THE MARKET

Following an exceptionally volatile week, the October NYMEX futures contract went out quietly on Friday, settling 6.6 cents lower at $11.691/MMBtu in an unusually light trading session ahead of the Labor Day weekend.

"The market's on edge right now trying to figure out the extent of damage" caused by Hurricane Katrina, an analyst said. While three-fourths of Gulf of Mexico gas and oil supply remains shut in Friday due to the storm, the situation "hasn't been totally bad. We're slowly getting some production back on line."

After opening at $11.70, the front-month contract traded in its

(continued on page 2)

MMS: 72.5% of Gulf production still shut in

Producers on Friday restarted about 618,000 Mcf/day of Gulf of Mexico production curtailed by Hurricane Katrina and prepared to spend much of the weekend waiting for local utilities to reconnect power to gas processing plants in the region—one of the last remaining bottlenecks in the gas supply chain.

Producers reported remanning 95 more platforms and 11 more rigs Friday, but nearly 40% remained without personnel, according to the New Orleans office of the Minerals Management Service. Operators reduced the amount of shut-in production to 7.2 Bcf/day, or 72.5% of

(continued on page 4)

Katrina slams LDCs already hit by gas costs

Last week, dozens of local distribution companies across the country were in the process of preparing residential customers for record-high gas bills this winter—and then came Hurricane Katrina.

Since the deadly storm blew through the Gulf of Mexico and knocked about 80% of gas production off-line, many of those same LDCs, along with a host of others, have been scrambling to get the word out that heating bills will be even more painful for consumers than anyone expected just a few days earlier.

"The hurricane has made the situation worse," said a spokesman for

(continued on page 6)

NERC worried about grid flow, gas dependence

The growing dependence on gas-fired generation and increasing stress placed on the nation's electric transmission system will be causes for concern over the next 10 years, the North American Electric Reliability Council said Friday in its long-term reliability assessment.

Although the transmission system is expected to operate reliably overall, "some portions of the grid will not be able to support all desired electricity market transactions" as existing constraints recur and new constraints appear as power flow patterns change, NERC said.

(continued on page 3)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/02
Flow date(s): 9/03-06

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.660	9.54-9.83	9.59-9.73	779	101
Waha	9.735	9.40-9.90	9.61-9.86	964	127
Transwestern, Permian Basin	8.800	8.75-8.95	8.75-8.85	18	6
East Texas-North Louisiana Area					
Carthage Hub	10.205	9.70-10.60	9.98-10.43	143	22
NGPL, Texok zone	10.165	9.99-10.40	10.06-10.27	380	55
Texas Eastern, ETX	9.435	9.40-9.50	9.41-9.46	8	3
Texas Gas, zone 1	11.655	11.60-11.77	11.61-11.70	55	14
East-Houston-Katy					
Houston Ship Channel	10.530	10.39-10.75	10.44-10.62	343	30
Katy	10.555	10.45-10.65	10.50-10.61	580	57
South-Corpus Christi					
Agua Dulce Hub	10.495	10.42-10.60	10.45-10.54	195	19
NGPL, STX	10.155	9.70-10.34	9.99-10.32	33	11
Tennessee, zone 0	10.465	10.20-10.55	10.38-10.55	528	74
Texas Eastern, STX	10.335	10.01-10.60	10.19-10.48	163	39
Transco, zone 1	10.395	10.38-10.41	10.39-10.40	35	7
Louisiana-Onshore South					
ANR, La.	11.675	11.52-11.76	11.61-11.74	111	23
Columbia Gulf, La.	11.720	11.62-11.81	11.67-11.77	273	49
Columbia Gulf, mainline	11.750	11.70-12.00	11.70-11.83	136	24
Florida Gas, zone 1	—	— —	— —	—	0
Florida Gas, zone 2	14.965	12.90-15.40	14.34-15.40	86	7
Florida Gas, zone 3	16.350	15.22-17.25	15.84-16.86	382	17
Henry Hub	11.745	11.65-11.90	11.68-11.81	640	102
NGPL, La.	11.365	11.35-11.40	11.35-11.38	7	2
Southern Natural, La.	12.975	12.75-13.08	12.89-13.06	47	7
Tennessee, La., 500 Leg	11.790	11.50-12.25	11.60-11.98	71	8
Tennessee, La., 800 Leg	11.735	11.63-11.78	11.70-11.77	136	20
Texas Eastern, WLA	11.195	11.10-11.56	11.10-11.31	266	35
Texas Eastern, ELA	11.900	11.60-12.25	11.74-12.06	51	9
Texas Gas, zone SL	11.695	11.60-11.80	11.64-11.75	98	19
Transco, zone 2	10.850	10.60-11.00	10.75-10.95	96	14
Transco, zone 3	12.085	10.90-12.75	11.62-12.55	458	58
Trunkline, WLA	11.740	11.65-11.85	11.69-11.79	13	6
Trunkline, ELA	11.750	11.61-11.85	11.69-11.81	8	8
Oklahoma					
ANR, Okla.	9.450	9.40-9.55	9.41-9.49	60	16
CenterPoint, East	9.675	9.35-9.90	9.54-9.81	113	24
NGPL, Midcontinent	9.460	9.44-9.50	9.44-9.48	122	30
Oneok, Okla.	9.625	9.50-9.85	9.54-9.71	50	9
Panhandle, Tx.-Okla.	9.450	9.41-9.48	9.43-9.47	211	29
Southern Star, Tx.-Okla.-Kan.	9.425	9.40-9.43	9.42-9.43	53	7
New Mexico-San Juan Basin					
El Paso, Bondad	8.680	8.65-8.72	8.66-8.70	53	12
El Paso, San Juan Basin	8.770	8.50-8.88	8.67-8.87	265	38

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Gas Daily

Wednesday, September 7, 2005

Gulf pipelines say 6.3 Bcf/day still not flowing

Nearly half of the 8.8 Bcf/day of Gulf of Mexico gas production knocked out by Hurricane Katrina remained off-line Tuesday, while offshore gas pipelines said 6.3 Bcf/day was still not flowing either because of storm-related production cuts or damage to lines and processing plants.

El Paso's 7 Bcf/day Tennessee Gas Pipeline was experiencing throughput reductions of 700,000 Mcf/day upstream of the Port Sulphur Compressor Station as of Tuesday afternoon, a company spokesman said. Tennessee said it had confirmed leaks on the 26-inch-diameter line at Ship Shoal 157 and Ship Shoal 144 offshore Louisiana and had

(continued on page 4)

Gas grid aided by storage supplies, low demand

Even though 8% to 16% of daily gas supplies have disappeared in Hurricane Katrina's wake, markets across the country have managed to stay whole largely because of a significant drop in demand, particularly in the Gulf Coast region, industry officials said Tuesday.

But as winter approaches and heating demand returns, any lingering supply curtailments in the Gulf of Mexico could pose problems for local distribution companies and their customers.

"LDCs and most businesses in the Gulf region are not drawing anything right now" as recovery efforts continue in a region that typically

(continued on page 3)

Cheniere plans to enter LNG marketing arena

Shedding its image of a company that strictly builds terminals and leases capacity on them, Cheniere Energy on Tuesday announced plans to buy and market liquefied natural gas cargoes for at least three years at its Sabine Pass LNG terminal under construction in Cameron Parish, La.

Hoping to capitalize on the emerging LNG spot market, the Houston-based company issued a request for proposals for up to 200 LNG cargoes/year at the facility from 2008 to 2010. The terminal is scheduled to start operating in the first quarter of 2008 and would be

(continued on page 3)

Cash markets mixed as NYMEX inches lower

THE MARKET

Spot prices on Thursday ended mixed as the market continued to seek direction in the aftermath of Hurricane Katrina. Traders said the October NYMEX futures contract provided little guidance as it closed 3.4 cents lower at $11.657/MMBtu.

The front-month contract swung in and out of positive territory throughout the day, trading in a broad $11.46 to $11.80 range. "It doesn't really want to break [lower], but it won't go up either," said an analyst.

Another analyst cited psychological pressure from oil and gasoline prices, which dropped off significantly in Tuesday's session as supply

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/06
Flow date(s): 9/07

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.745	9.56-9.88	9.66-9.83	565	92
Waha	9.845	9.71-9.91	9.79-9.90	528	72
Transwestern, Permian Basin	8.920	8.80-9.05	8.86-8.98	21	7
East Texas-North Louisiana Area					
Carthage Hub	9.890	9.75-10.15	9.79-9.99	120	14
NGPL, Texok zone	10.250	10.00-10.45	10.14-10.36	316	53
Texas Eastern, ETX	9.400	9.40 -9.40	9.40 -9.40	5	2
Texas Gas, zone 1	11.650	11.34-11.76	11.54-11.76	45	13
East-Houston-Katy					
Houston Ship Channel	10.705	10.43-10.90	10.59-10.82	325	26
Katy	10.565	10.42-10.67	10.50-10.63	441	45
South-Corpus Christi					
Agua Dulce Hub	10.610	10.30-11.00	10.43-10.79	228	20
NGPL, STX	10.005	9.97 -10.05	9.98 -10.03	48	10
Tennessee, zone 0	10.720	10.44-11.00	10.58-10.86	233	36
Texas Eastern, STX	10.075	9.83 -10.30	9.96 -10.19	123	31
Transco, zone 1	10.230	10.03-10.35	10.15-10.31	26	6
Louisiana-Onshore South					
ANR, La.	11.445	11.30-11.75	11.33-11.56	147	28
Columbia Gulf, La.	11.615	11.33-11.73	11.51-11.72	293	46
Columbia Gulf, mainline	11.690	11.50-11.83	11.61-11.77	101	19
Florida Gas, zone 1	11.700	11.70-11.70	11.70-11.70	5	1
Florida Gas, zone 2	12.250	12.25-12.25	12.25-12.25	16	4
Florida Gas, zone 3	13.580	13.00-15.00	13.08-14.08	162	12
Henry Hub	11.580	11.37-11.85	11.46-11.70	359	57
NGPL, La.	11.250	11.25-11.25	11.25-11.25	35	3
Southern Natural, La.	12.035	11.59-12.25	11.87-12.20	4	2
Tennessee, La., 500 Leg	11.615	11.52-11.65	11.58-11.65	145	15
Tennessee, La., 800 Leg	11.435	11.39-11.54	11.40-11.47	234	38
Texas Eastern, WLA	11.205	11.00-11.36	11.11-11.30	299	50
Texas Eastern, ELA	11.535	11.20-11.75	11.40-11.67	40	9
Texas Gas, zone SL	11.555	11.15-11.80	11.39-11.72	302	46
Transco, zone 2	10.685	10.50-10.90	10.58-10.79	56	12
Transco, zone 3	11.690	11.40-12.01	11.54-11.84	326	57
Trunkline, WLA	11.670	11.62-11.70	11.65-11.69	10	2
Trunkline, ELA	11.580	11.30-11.70	11.48-11.68	54	15
Oklahoma					
ANR, Okla.	9.590	9.48 -9.80	9.51 -9.67	40	10
CenterPoint, East	9.520	9.42 -9.80	9.42 -9.62	89	26
NGPL, Midcontinent	9.575	9.50 -9.75	9.51 -9.64	79	18
Oneok, Okla.	9.600	9.60 -9.60	9.60 -9.60	6	1
Panhandle, Tx.-Okla.	9.525	9.34 -9.60	9.46 -9.59	275	47
Southern Star, Tx.-Okla.-Kan.	9.575	9.43 -9.70	9.51 -9.64	100	10
New Mexico-San Juan Basin					
El Paso, Bondad	8.835	8.82 -8.85	8.83 -8.84	44	8
El Paso, San Juan Basin	8.915	8.85 -9.04	8.87 -8.96	156	39

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Gas Daily

Thursday, September 8, 2005

EIA hikes price forecast 16% due to Katrina

The Energy Information Administration on Wednesday painted a turbulent picture of the near-term gas market, making dramatic upward revisions to its price projections while sharply cutting its estimates of demand and storage inventories.

As the industry struggles with supply disruptions caused by Hurricane Katrina, EIA added nearly $3/Mcf to its fourth-quarter Henry Hub price estimate and $1.19/Mcf to its full-year 2005 forecast.

In its September short-term energy outlook, EIA also reduced its full-year 2005 demand forecast by 560 Bcf, to 22.28 Tcf, and said it now sees gas storage stocks totaling just 2.81 Tcf on Sept. 30, down 280 Bcf from

(continued on page 6)

Gulf shut-ins remain at 4 Bcf/day

Gulf of Mexico natural gas producers—who had already restored more than half of the 8.8 Bcf/day of production shut in by Hurricane Katrina—hit the wall Wednesday, restoring a paltry 124,310 Mcf/day of gas, or 1%, to production.

A survey of 59 producers by the Minerals Management Service found producers had remanned another 29 of the Gulf's 819 platforms and nine of the region's 134 drilling rigs, but the amount of shut-in production remained stuck at just over 4 Bcf/day, 40% of the Gulf's normal 10 Bcf/day output.

(continued on page 4)

With no cash, Gulf munis struggle to rebuild

Small municipally owned gas companies in the areas hardest hit by Hurricane Katrina are faced with the Herculean task of rebuilding their infrastructure at a time when there is no revenue coming in to pay for it, officials assisting in the recovery effort said this week.

While larger investor-owned utilities "can usually throw in the resources and work to stabilize the system, the smaller municipal systems are in trouble. And closer to the coast, they've been wiped out," noted Bill Coffeen, senior vice president of privately owned Mobile Gas and its parent EnergySouth.

(continued on page 3)

NYMEX falls 45.6 cents; cash markets follow

THE MARKET

As the market continued its attempts to stabilize in the wake of Hurricane Katrina, spot gas prices plummeted Wednesday between 30 and 70 cents in most regions, but as much as $2/MMBtu in Florida, where temperatures dropped ahead of yet another tropical storm.

The October NYMEX gas futures contract did its part to exert downward pressure on prices, opening at $11.32/MMBtu and eventually falling to $11.05/MMBtu, its lowest point since Aug. 29. October closed at $11.201/MMBtu, a 45.6-cent plunge from Tuesday,

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.120

Trans. date: 9/07
Flow date(s): 9/08

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.015	8.85-9.15	8.94-9.09	374	59
Waha	9.155	8.99-9.25	9.09-9.22	626	88
Transwestern, Permian Basin	8.475	8.35-8.57	8.42-8.53	16	8
East Texas-North Louisiana Area					
Carthage Hub	9.200	9.00-10.00	9.00-9.45	201	28
NGPL, Texok zone	9.625	9.42-9.81	9.53-9.72	519	91
Texas Eastern, ETX	9.250	9.25 -9.25	9.25 -9.25	7	2
Texas Gas, zone 1	11.010	10.82-11.19	10.92-11.10	99	18
East-Houston-Katy					
Houston Ship Channel	10.310	9.95 -10.75	10.11-10.51	347	32
Katy	10.105	9.95 -10.20	10.04-10.17	473	54
South-Corpus Christi					
Agua Dulce Hub	10.080	9.93 -10.15	10.02-10.14	115	9
NGPL, STX	9.485	9.44 -9.65	9.44 -9.54	37	11
Tennessee, zone 0	10.055	9.90 -10.26	9.96 -10.15	476	74
Texas Eastern, STX	10.005	9.70 -10.10	9.90 -10.10	224	45
Transco, zone 1	9.520	9.40 -9.70	9.44 -9.60	12	5
Louisiana-Onshore South					
ANR, La.	10.790	10.70-10.90	10.74-10.84	183	40
Columbia Gulf, La.	10.985	10.88-11.15	10.92-11.05	309	48
Columbia Gulf, mainline	11.110	11.06-11.30	11.06-11.17	134	22
Florida Gas, zone 1	11.195	10.90-11.27	11.10-11.27	9	3
Florida Gas, zone 2	11.635	11.20-11.80	11.48-11.79	37	4
Florida Gas, zone 3	12.095	11.70-13.75	11.70-12.61	204	7
Henry Hub	11.035	10.82-11.35	10.90-11.17	412	54
NGPL, La.	10.725	10.65-10.80	10.69-10.76	30	5
Southern Natural, La.	11.250	10.90-11.30	11.15-11.30	33	6
Tennessee, La., 500 Leg	10.865	10.78-10.97	10.82-10.91	101	21
Tennessee, La., 800 Leg	10.815	10.74-11.10	10.74-10.91	225	35
Texas Eastern, WLA	10.755	10.61-10.92	10.68-10.83	372	50
Texas Eastern, ELA	10.930	10.79-11.15	10.84-11.02	122	21
Texas Gas, zone SL	11.025	10.82-11.30	10.90-11.15	244	38
Transco, zone 2	10.580	10.30-10.83	10.45-10.71	96	18
Transco, zone 3	11.045	10.90-11.53	10.90-11.20	565	94
Trunkline, WLA	10.865	10.70-10.93	10.81-10.92	12	3
Trunkline, ELA	10.885	10.80-11.00	10.83-10.94	65	17
Oklahoma					
ANR, Okla.	8.900	8.88 -8.98	8.88 -8.93	38	9
CenterPoint, East	9.185	9.10 -9.25	9.15 -9.22	68	21
NGPL, Midcontinent	8.945	8.88 -9.20	8.88 -9.03	107	26
Oneok, Okla.	9.050	9.05 -9.05	9.05 -9.05	19	2
Panhandle, Tx.-Okla.	8.905	8.81 -9.05	8.84 -8.97	199	37
Southern Star, Tx.-Okla.-Kan.	8.990	8.85 -9.25	8.89 -9.09	130	13
New Mexico-San Juan Basin					
El Paso, Bondad	8.340	8.30 -8.40	8.31 -8.37	107	20
El Paso, San Juan Basin	8.465	8.45 -8.57	8.45 -8.50	177	27

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Gas Daily

Friday, September 9, 2005

Eastern Gulf shut-ins stalled at 4 Bcf/day

While four of the five Gulf Coast districts controlled by the Minerals Management Services' Gulf of Mexico regional office have restored nearly all of their natural gas production, the fifth—the easternmost New Orleans district—has been unable to restore any gas to production, figures released Thursday by the MMS revealed.

Overall, shut-in production volumes remained steady at 4 Bcf/day for the second straight day, the MMS said, based on reports from 56 companies.

The Houma and New Orleans districts have seen the amount of shut-in production increase this week. An MMS spokeswoman said those small increases were due to late reports from one operator.

(continued on page 7)

Calpine, Bear Stearns form trading venture

In the latest example of a financial services firm moving into the energy trading arena, Bear Stearns announced Thursday it is launching a joint venture with Calpine that combines the physical assets and operational experience of Calpine Energy Services with Bear Stearns' financial resources and risk management expertise.

Assuming FERC approves the transaction in October, Calpine and Bear Stearns anticipate their Houston-based venture, CalBear Energy LP, will begin operating sometime in early 2006, officials with both companies said.

Speaking with analysts, the officials said CalBear is not a hedge

(continued on page 6)

Officials: Gas-fired plants to strain supply

New gas-fired power generation capacity in eastern Canada and the U.S. Northeast will strain an already tight gas market over the next several years, although industry officials differed Thursday on just how great the impact will be.

Paul DuMaresq, director of marketing for Shell Trading, said the Ontario government's June 2004 call to reduce the province's reliance on coal-fired electricity has resulted in about 25,000 MW of gas-fired replacement capacity being proposed. He said those plants' "potential" gas consumption is about 73 petajoules/year, or about 7 Bcf annually.

(continued on page 5)

NYMEX gains 14 cents on continued shut-ins

THE MARKET

The October NYMEX gas futures contract weakened throughout the trading day Thursday, eventually tumbling 20 cents by midday to dip below the $11/MMBtu mark before regaining its footing and reaching a close of $11.34/MMBtu, up 14 cents.

The October contract shrugged off those early morning losses after a mid-afternoon report issued by the U.S. Minerals Management Service showed minimal improvement in gas and oil production shut in by Hurricane Katrina, sources said *(see related story above)*.

MMS said gas shut-in volumes Thursday fell only marginally from

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.120

Trans. date: 9/08
Flow date(s): 9/09

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.825	8.76-9.00	8.76-8.89	332	52
Waha	8.915	8.74-9.15	8.81-9.02	543	78
Transwestern, Permian Basin	8.425	8.35-8.50	8.39-8.46	28	7
East Texas-North Louisiana Area					
Carthage Hub	9.460	9.15-9.95	9.26-9.66	155	23
NGPL, Texok zone	9.685	9.51-9.92	9.58-9.79	367	65
Texas Eastern, ETX	9.195	9.15-9.30	9.16-9.23	14	4
Texas Gas, zone 1	10.890	10.84-10.93	10.87-10.91	36	9
East-Houston-Katy					
Houston Ship Channel	10.095	9.70-10.30	9.94-10.25	219	17
Katy	9.885	9.80-10.00	9.83-9.94	343	37
South-Corpus Christi					
Agua Dulce Hub	9.860	9.70-10.20	9.73-9.99	87	8
NGPL, STX	9.730	9.60-9.80	9.68-9.78	97	23
Tennessee, zone 0	10.135	9.75-10.30	10.00-10.27	330	43
Texas Eastern, STX	9.950	9.60-10.20	9.80-10.10	172	33
Transco, zone 1	9.685	9.64-9.70	9.67-9.70	27	5
Louisiana-Onshore South					
ANR, La.	10.785	10.71-10.85	10.75-10.82	92	23
Columbia Gulf, La.	10.875	10.80-10.92	10.84-10.91	322	50
Columbia Gulf, mainline	11.010	10.90-11.03	10.98-11.03	174	32
Florida Gas, zone 1	10.955	10.95-10.98	10.95-10.96	13	2
Florida Gas, zone 2	11.185	11.10-11.20	11.16-11.20	81	10
Florida Gas, zone 3	11.745	11.40-12.25	11.53-11.96	170	9
Henry Hub	10.925	10.80-11.10	10.85-11.00	777	101
NGPL, La.	10.440	10.40-10.65	10.40-10.50	51	7
Southern Natural, La.	11.185	10.93-11.30	11.09-11.28	61	7
Tennessee, La., 500 Leg	11.060	10.93-11.14	11.01-11.11	68	14
Tennessee, La., 800 Leg	10.775	10.60-10.85	10.71-10.84	265	40
Texas Eastern, WLA	10.585	10.54-10.65	10.56-10.61	350	38
Texas Eastern, ELA	10.915	10.70-11.00	10.84-10.99	62	14
Texas Gas, zone SL	10.875	10.79-10.92	10.84-10.91	201	27
Transco, zone 2	10.700	10.50-10.87	10.61-10.79	83	18
Transco, zone 3	10.980	10.89-11.07	10.93-11.03	593	100
Trunkline, WLA	10.880	10.88-10.88	10.88-10.88	6	1
Trunkline, ELA	10.850	10.81-10.88	10.83-10.87	45	12
Oklahoma					
ANR, Okla.	8.840	8.78-9.00	8.78-8.90	30	9
CenterPoint, East	9.405	9.35-9.48	9.37-9.44	33	8
NGPL, Midcontinent	8.880	8.80-9.00	8.83-8.93	126	30
Oneok, Okla.	9.060	9.03-9.10	9.04-9.08	11	2
Panhandle, Tx.-Okla.	8.880	8.70-9.05	8.79-8.97	253	45
Southern Star, Tx.-Okla.-Kan.	8.820	8.74-8.88	8.78-8.86	21	4
New Mexico-San Juan Basin					
El Paso, Bondad	8.310	8.28-8.40	8.28-8.34	85	13
El Paso, San Juan Basin	8.370	8.25-8.56	8.29-8.45	206	47

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Gas Daily

Monday, September 12, 2005

Katrina takes a toll on energy market liquidity

Hurricane Katrina has taken a chunk out of the volume being traded in the natural gas market, and sources last week pointed not only to production shut-ins, but also to price volatility and credit issues that could take more than a few weeks to sort out.

"Volume this week has been very light in natural gas," said Addison Armstrong, manager of exchange traded markets for TFS Energy, a Stamford, Conn.-based broker. "And it's going to continue to be an issue as traders learn the true extent of the damage [caused by Hurricane Katrina]."

Armstrong said it could take two or three weeks before the extent of damage is known. And until then, it could be hard to buy or sell in the

(continued on page 7)

Eastern Gulf restores 2% more production

Gulf producers restored a trickle of their shut-in production Friday, the Minerals Management Service said, but a closer look at the numbers indicates that Hurricane Katrina may have caused untold damage to the platforms and pipelines in her path across the eastern portion of the Gulf of Mexico producing region.

A survey of 56 energy producers Friday revealed that 2% of shut-in production, or 191,810 Mcf/day, was returned to service, leaving 3.828 Bcf/day, or 38% of the Gulf's normal 10 Bcf/day of natural gas production, still offline.

(continued on page 5)

End-users grapple with ways to cut gas costs

Slammed with the highest natural gas costs in their histories, two of Canada's largest industrial consumers have stepped up price-mitigation efforts to ensure their continued viability, officials with the companies said Friday.

But with gas above $10/MMBtu and future market direction unpredictable, even hedging and other risk management tools are becoming more and more expensive—raising the question of whether the benefit is worth the cost.

"We are a high-volume [gas] user, so higher prices and higher

(continued on page 4)

NYMEX dips 8.4 cents in quiet trading day

THE MARKET

The October NYMEX gas futures contract ended 8.4 cents lower at $11.263/MMBtu Friday in a slow day of consolidation following the prior week's sharp run-up into virtually uncharted territory, sources said Friday.

Trading got off to a late start at 11 a.m. EDT after a commemorative service for the victims of the Sept. 11, 2001, terrorist attacks.

The front-month contract then traded in and out of positive territory between $11.23/MMBtu and $11.41/MMBtu. A broker pointed to a little less uncertainty in the market after government and independent

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.190

Trans. date: 9/09
Flow date(s): 9/10-12

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.940	8.87-9.20	8.87-9.02	239	40
Waha	9.060	8.91-9.30	8.96-9.16	517	67
Transwestern, Permian Basin	8.390	8.30-8.50	8.34-8.44	5	3
East Texas-North Louisiana Area					
Carthage Hub	9.645	9.50-9.80	9.57-9.72	43	5
NGPL, Texok zone	9.810	9.75-9.91	9.77-9.85	335	53
Texas Eastern, ETX	9.265	9.00-9.60	9.11-9.42	11	3
Texas Gas, zone 1	10.960	10.96-10.96	10.96-10.96	9	2
East-Houston-Katy					
Houston Ship Channel	10.100	9.83-10.90	9.83-10.37	390	29
Katy	9.935	9.85-10.05	9.88-9.99	445	37
South-Corpus Christi					
Agua Dulce Hub	9.840	9.63-9.95	9.76-9.92	253	19
NGPL, STX	9.740	9.50-9.81	9.66-9.81	38	8
Tennessee, zone 0	9.855	9.72-10.00	9.78-9.93	290	42
Texas Eastern, STX	9.785	9.75-9.90	9.75-9.82	179	36
Transco, zone 1	9.765	9.63-9.80	9.72-9.80	10	5
Louisiana-Onshore South					
ANR, La.	10.810	10.76-10.85	10.79-10.83	148	32
Columbia Gulf, La.	10.970	10.91-11.02	10.94-11.00	240	39
Columbia Gulf, mainline	11.055	11.03-11.08	11.04-11.07	116	20
Florida Gas, zone 1	11.020	11.02-11.02	11.02-11.02	1	1
Florida Gas, zone 2	11.290	11.20-11.50	11.21-11.37	48	9
Florida Gas, zone 3	11.735	11.50-12.23	11.55-11.92	152	9
Henry Hub	11.030	10.97-11.15	10.98-11.08	401	59
NGPL, La.	10.550	10.47-10.65	10.50-10.60	47	6
Southern Natural, La.	11.505	11.20-11.90	11.33-11.68	126	12
Tennessee, La., 500 Leg	11.080	10.95-11.15	11.03-11.13	66	14
Tennessee, La., 800 Leg	10.825	10.72-11.03	10.75-10.90	144	27
Texas Eastern, WLA	10.720	10.69-10.80	10.69-10.75	359	30
Texas Eastern, ELA	11.020	10.95-11.10	10.98-11.06	119	25
Texas Gas, zone SL	10.955	10.90-11.04	10.92-10.99	155	24
Transco, zone 2	10.770	10.59-10.90	10.69-10.85	156	26
Transco, zone 3	11.045	10.92-11.19	10.98-11.11	602	86
Trunkline, WLA	10.960	10.93-11.01	10.94-10.98	30	6
Trunkline, ELA	10.830	10.82-10.86	10.82-10.84	46	9
Oklahoma					
ANR, Okla.	8.920	8.85-9.05	8.87-8.97	39	8
CenterPoint, East	9.105	8.99-9.34	9.02-9.19	219	34
NGPL, Midcontinent	9.025	8.95-9.08	8.99-9.06	97	29
Oneok, Okla.	9.180	9.10-9.18	9.16-9.18	28	2
Panhandle, Tx.-Okla.	9.025	8.95-9.11	8.98-9.07	233	36
Southern Star, Tx.-Okla.-Kan.	8.985	8.87-9.05	8.94-9.03	118	15
New Mexico-San Juan Basin					
El Paso, Bondad	8.365	8.34-8.55	8.34-8.42	54	9
El Paso, San Juan Basin	8.525	8.30-8.85	8.39-8.66	232	37

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Gas Daily

Tuesday, September 13, 2005

Analysts: Katrina far more damaging than Ivan

KATRINA HITS HEDGE FUNDS story page 3

Hurricane Katrina caused far more damage to the offshore Gulf of Mexico producing region than last year's Hurricane Ivan, and it will be many months before the resulting loss of production is restored, Edward Kelly, head of North American Gas & Power at consulting firm Wood Mackenzie, cautioned Monday.

"Recovery will not be immediate," Kelly told Interchange Energy's LDC Forum outside Chicago. Supply challenges in the region existed prior to Katrina and "the storm came in the midst of that," he said.

Based on information collected since Katrina struck the Gulf Coast

(continued on page 7)

Gulf output slow to return; crews, boats lacking

Despite having remanned 87% of Gulf of Mexico platforms, gas companies returned less than 0.5% of production over the weekend, leaving 3.78 Bcf/day still curtailed due to Hurricane Ivan, the Minerals Management Service reported Monday.

About 84% of the shut-in gas, or 3.16 Bcf/day, was locked away in MMS's New Orleans district, which includes such well-known fields as Main Pass and West Delta. Producers in that district reported returning only 15,620 Mcf/day to production over the weekend.

Producers "are still having difficulty getting the information nailed

(continued on page 5)

Forest to sell Gulf assets, buy stake in Mariner

Forest Oil on Monday became the latest in a string of large exploration-and-production companies to exit the offshore Gulf of Mexico to concentrate on their onshore producing assets.

Under a complex deal involving Mariner Energy, a privately held former Enron affiliate, Forest will spin off its offshore Gulf operations into an entity that will then merge with a wholly owned subsidiary of Mariner.

Forest CEO Craig Clark said his Denver-based firm will become Mariner's majority shareholder, owning 58% of its stock. "We now have

(continued on page 4)

NYMEX settles just above $11; cash prices fall

THE MARKET

Pressured by mild weather across much of the West, the October NYMEX futures contract opened down 37.3 cents/MMBtu below Friday's close but failed to stay below the $11 support floor and eventually closed at $11.031, down 23.2 cents.

"Crude has dropped back down a bit. That's certainly helped a lot," a broker said, adding that a reduction in cooling demand in many regions also gave the market a bullish tenor. "Finally, summer is drawing to a close," he said.

Sources offered differing views of the impact of the latest post-

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.140

Trans. date: 9/12
Flow date(s): 9/13

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.715	8.60-8.93	8.63-8.80	388	66
Waha	8.810	8.60-8.96	8.72-8.90	462	69
Transwestern, Permian Basin	8.480	8.20-8.53	8.40-8.53	20	4
East Texas-North Louisiana Area					
Carthage Hub	9.195	9.10-9.40	9.12-9.27	150	19
NGPL, Texok zone	9.570	9.36-9.64	9.50-9.64	350	66
Texas Eastern, ETX	9.195	8.70 -9.50	8.99 -9.40	16	4
Texas Gas, zone 1	10.635	10.57-10.68	10.61-10.66	107	19
East-Houston-Katy					
Houston Ship Channel	9.355	9.15 -10.52	9.15 -9.70	422	44
Katy	9.340	9.10 -9.60	9.21 -9.47	352	28
South-Corpus Christi					
Agua Dulce Hub	9.465	9.25 -9.58	9.38 -9.55	165	16
NGPL, STX	9.510	9.45 -9.60	9.47 -9.55	214	37
Tennessee, zone 0	9.505	9.40 -9.63	9.45 -9.56	386	42
Texas Eastern, STX	9.450	9.30 -9.75	9.34 -9.56	240	44
Transco, zone 1	9.335	9.30 -9.45	9.30 -9.37	11	3
Louisiana-Onshore South					
ANR, La.	10.550	10.50-10.76	10.50-10.62	167	34
Columbia Gulf, La.	10.650	10.57-10.84	10.58-10.72	308	50
Columbia Gulf, mainline	10.735	10.69-10.92	10.69-10.79	77	19
Florida Gas, zone 1	10.720	9.60 -10.90	10.39-10.90	70	6
Florida Gas, zone 2	11.010	10.84-11.27	10.90-11.12	94	11
Florida Gas, zone 3	11.560	11.05-11.80	11.37-11.75	297	11
Henry Hub	10.665	10.61-10.85	10.61-10.73	687	84
NGPL, La.	10.290	10.27-10.40	10.27-10.32	21	5
Southern Natural, La.	10.970	10.77-11.24	10.85-11.09	39	4
Tennessee, La., 500 Leg	10.875	10.80-11.00	10.82-10.93	129	20
Tennessee, La., 800 Leg	10.690	10.48-10.90	10.58-10.80	234	29
Texas Eastern, WLA	10.520	10.40-10.70	10.44-10.60	249	39
Texas Eastern, ELA	10.755	10.63-10.90	10.69-10.82	123	21
Texas Gas, zone SL	10.680	10.56-10.90	10.59-10.77	268	30
Transco, zone 2	10.665	10.55-10.82	10.60-10.73	132	21
Transco, zone 3	10.880	10.72-11.45	10.72-11.06	636	104
Trunkline, WLA	10.500	10.50-10.50	10.50-10.50	1	1
Trunkline, ELA	10.495	10.30-10.54	10.43-10.54	67	18
Oklahoma					
ANR, Okla.	8.785	8.70 -8.90	8.73 -8.84	30	8
CenterPoint, East	9.140	9.00 -9.24	9.08 -9.20	51	9
NGPL, Midcontinent	8.890	8.84 -9.25	8.84 -8.99	129	38
Oneok, Okla.	8.770	8.75 -8.95	8.75 -8.82	11	3
Panhandle, Tx.-Okla.	8.820	8.70 -8.92	8.76 -8.88	168	30
Southern Star, Tx.-Okla.-Kan.	8.800	8.80 -8.80	8.80 -8.80	6	1
New Mexico-San Juan Basin					
El Paso, Bondad	8.400	8.33 -8.48	8.36 -8.44	23	7
El Paso, San Juan Basin	8.445	8.05 -8.52	8.33 -8.52	257	44

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Gas Daily

Wednesday, September 14, 2005

Volatility draws new players to merchant sector

RANKINGS page 7

The energy merchant sector continues to attract a new crop of players eager to take advantage of increased volatility in the natural gas market—particularly investment banks that bring deep pockets along with their expertise.

That paradigm shift is evident in *Gas Daily*'s marketer rankings for the second quarter of 2005, in which firms such as UBS and Merrill Lynch have replaced marketing giants such as Enron, Mirant and AEP.

"It's a continuing trend since the industry hit its low point," noted analyst Ben Schlesinger, president of Maryland-based consultancy Benjamin Schlesinger & Associates. "It's all part of the recovery—an

(continued on page 6)

Feds express 'great concern' about gas losses

Gulf of Mexico producers restored little of their shut-in gas production between Monday and Tuesday as key Bush administration officials began expressing concerns about the impact those lost volumes will have on prices this winter.

"The great concern is about natural gas," Energy Secretary Samuel Bodman told reporters in Louisiana on Tuesday morning as he surveyed the destruction caused by Hurricane Katrina. He cited growing uncertainty about the amount of damage to gas production platforms, gathering systems and processing plants in the region.

(continued on page 5)

NPC study calls gas resource base 'abundant'

The Potential Gas Committee on Tuesday slightly reduced its estimate of total U.S. gas reserves while stressing that new discoveries continue to outpace production. Even so, the American Gas Assn. lamented that too much of that gas remains off-limits to exploration and development.

In its biennial report, the PGC pegged domestic reserves as of Dec. 31 at 1,308 Tcf, down about 2.4 Tcf, or 0.2%, from year-end 2002. However, "these minor changes have been assessed even though approximately 38 Tcf of domestic natural gas has been produced in the

(continued on page 4)

NYMEX closes below $11, but cash prices rally

THE MARKET

The October NYMEX futures contract slid another 26.8 cents on Tuesday to settle at $10.763/MMBtu, marking the first time the front-month contract has closed below $11 since Hurricane Katrina hammered the Gulf Coast on Aug. 29.

Over the past three sessions, October gas has shed a total of 58.4 cents. "The market has cooled its heels, and appropriately so. It really got carried away with the big reaction to the hurricane," said a broker. "Immediately following Hurricane Katrina, the market incorporated all the bad news it could muster in a very short period of time."

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.210

Trans. date: 9/13
Flow date(s): 9/14

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.815	8.65-9.11	8.70-8.93	635	106
Waha	8.795	8.60-9.35	8.61-8.98	715	95
Transwestern, Permian Basin	8.555	8.55-8.60	8.55-8.57	24	5
East Texas-North Louisiana Area					
Carthage Hub	9.245	9.18-9.59	9.18-9.35	79	12
NGPL, TexOK zone	9.570	9.45-9.72	9.50-9.64	700	109
Texas Eastern, ETX	9.280	8.67 -9.70	9.02 -9.54	22	5
Texas Gas, zone 1	10.725	10.61-10.80	10.68-10.77	59	15
East-Houston-Katy					
Houston Ship Channel	9.295	9.12 -10.10	9.12 -9.54	401	46
Katy	9.425	9.15 -9.80	9.26 -9.59	233	30
South-Corpus Christi					
Agua Dulce Hub	9.505	9.15 -9.64	9.38 -9.63	132	11
NGPL, STX	9.415	9.20 -9.69	9.29 -9.54	206	26
Tennessee, zone 0	9.620	9.45 -9.77	9.54 -9.70	172	26
Texas Eastern, STX	9.515	9.37 -9.80	9.41 -9.62	234	45
Transco, zone 1	9.435	9.20 -9.75	9.30 -9.57	38	11
Louisiana-Onshore South					
ANR, La.	10.735	10.60-10.85	10.67-10.80	151	25
Columbia Gulf, La.	10.705	10.58-10.80	10.65-10.76	332	55
Columbia Gulf, mainline	10.840	10.78-10.92	10.80-10.88	144	30
Florida Gas, zone 1	11.055	10.70-11.50	10.85-11.26	22	3
Florida Gas, zone 2	11.300	11.00-12.40	11.00-11.65	84	8
Florida Gas, zone 3	12.275	11.28-13.00	11.84-12.71	228	14
Henry Hub	10.685	10.57-10.91	10.60-10.77	1111	142
NGPL, La.	10.405	10.25-10.44	10.36-10.44	16	7
Southern Natural, La.	11.010	10.85-11.15	10.93-11.09	65	6
Tennessee, La., 500 Leg	10.935	10.86-11.08	10.88-10.99	15	2
Tennessee, La., 800 Leg	10.760	10.58-10.88	10.68-10.84	335	43
Texas Eastern, WLA	10.590	10.50-10.78	10.52-10.66	287	47
Texas Eastern, ELA	10.905	10.75-11.00	10.84-10.97	107	17
Texas Gas, zone SL	10.750	10.57-10.95	10.65-10.85	225	25
Transco, zone 2	10.865	10.65-11.08	10.76-10.97	94	18
Transco, zone 3	11.100	10.77-11.37	10.95-11.25	806	126
Trunkline, WLA	10.705	10.60-10.72	10.67-10.72	15	4
Trunkline, ELA	10.650	10.45-10.73	10.58-10.72	92	19
Oklahoma					
ANR, Okla.	9.040	8.90 -9.15	8.98 -9.10	36	10
CenterPoint, East	9.230	9.15 -9.38	9.17 -9.29	68	11
NGPL, Midcontinent	9.120	9.05 -9.18	9.09 -9.15	115	27
Oneok, Okla.	9.125	9.10 -9.19	9.10 -9.15	19	5
Panhandle, Tx.-Okla.	9.115	9.00 -9.18	9.07 -9.16	108	24
Southern Star, Tx.-Okla.-Kan.	9.110	9.11 -9.11	9.11 -9.11	6	1
New Mexico-San Juan Basin					
El Paso, Bondad	8.540	8.39 -8.73	8.45 -8.63	44	8
El Paso, San Juan Basin	8.635	8.40 -8.60	8.53 -8.74	178	28

San Juan Operators

APPROVED UNIT OPERATORS
FARMINGTON FIELD OFFICE

DATE: 6/25/02

UNIT NAME	OPERATOR	CRS#	AFS# (MMS)	FORMATION
[redacted]				

(B)(4)
(B)(7)(e)

UNIT NAME	OPERATOR	CRS#	AFS#	FORMATION

(B)(4)

(B)(7)(e)

UNIT NAME	OPERATOR	CRS#	AFS#	FORMATION
		(B)(7)(e)		
		(B)(4)		

A"

UNIT NAME	OPERATOR	CRS#	AFS#	FORMATION
(B)(7)(e) (B)(4)				

* *

UTAH

UNIT NAME	CRS#	AFS#	FORMATION
(B)(7)(e) (B)(4)			

UNIT NAME	OPERATOR	CRS#	AFS#	FORMATION
		(B)(4)		(B)(7)(e)

Stratified Properties NW NM Values

Company Name	SumOfSale Value	%	Cum	Cum %
	(B)(4)			(B)(7)(e)
				54%
	(B)(4) (B)(7)(e)			

2/8/2008

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

MANZANARES ADDITIONS 2007

Asset Number	Asset Description	Retirement Unit	Lecacy Location Description	In Service Date	activity_cost
Compressors					
		(B)(4)			
		(B)(7)(e)			
Dehydrators					
		(B)(4)			
		(B)(7)(e)			
Pipelines					
		(B)(4)			
		(B)(7)(e)			

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Maddux, Julia, TRD

From: Miller, Morris [Morris.Miller@Williams.com]
Sent: Wednesday, July 22, 2009 2:32 PM
To: Maddux, Julia, TRD
Subject: Expected 2014 Volumes by CompanyV02.xls

Julia

This is my workbook showing what each working interest owner should report by month. (I did not break it down by lease.)

If necessary, I'll correct our 2014 report this month but I'd like for you to evaluate that first.

Let me know what you think.

Thanks

Morris

This inbound email has been scanned by the MessageLabs Email Security System.

Maddux, Julia, TRD

Modified: Mon 1/26/2009 2:39 PM

Chad Bracher called with Williams. Chad & Charlie looked over the Manzanares schedules.

He said the (B)(4)

(B)(4)

But the (B)(4) He researched this with Williams personnel.

(B)(4)

(B)(7)(e)

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Thursday, September 18, 2008 9:10 AM
To: 'Charlie.Brown@Williams.com'
Cc: 'Williams, Mary'; 'Ernest, Mike'
Subject: Draft Manzanares System Costs

9-18-2008

Subject: Manzanares system unbundling percentages

Charlie,

We have completed a preliminary schedule of unbundling costs on the Manzanares. System based on the information provided by Williams. I am sending the schedule for you to review.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

DRAFT

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd units				Williams Asset Schedule $	Coop/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(l*365+m) $	(j+k*12) + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	q + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		r	t	u
[redacted]																				Used 2006 typical mo expense

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Number: 1118

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(f*365*m) $	(j+k*12) + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	o + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		s	t	u

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd rators				Williams Asset Schedule $	Comp/Dehyd/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEPI inside FERC yrly avg $	(f*365*m) $	(j+k*12) + (n) $	(h + l + o)	col (p) subtotal/col (p) total		8 + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q		s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
Mineral Royalty Audit Program
Project
Project Number: 1138

DRAFT

MANZANARES SYSTEM COSTS - 2006

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(f*365*m) $	(j+k*12) + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4) (B)(7)(e)	g + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)										
Subtotal Dehydrators																			
(B)(4) (B)(7)(e)																			
Subtotal Pipeline																			
Grand Total							(B)(4) (B)(7)(e)						(B)(7)(e)			(B)(4)			

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) - (TME) (B)(7)(e) (B)(4) **expense not included in TME**

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet

6/18/2008
9-12-2008 Manzanares System Costs Manzanares Cost.wp
JAM

Compressors

| | | |

Capital West.

(B)(4)
(B)(7)(e)

Capital Costs

[redacted]

(B)(7)(e)

(B)(4)

Dehy
Dehy
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Dehy
Pipeline
Pipeline
Pipeline

Dehydrators

Legacy Location Description	Yearly Costs
(B)(4) (B)(7)(e)	
Grand Total	

Dehydrator ROI

	m Depreciation	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	.0609 * 1.3
$					
$					
$					

Pipeline Depreciation

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

Grand Total

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	wn	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	

Prepared by: Julia Maddox Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	wn	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4)		(B)(4)					(B)(7)(e)		
(B)(7)(e)		(B)(7)(e)			(B)(7)(e)	(B)(7)(e)			
							(B)(4)		
							(B)(7)(e)	(B)(7)(e)	
							(B)(4)		
							(B)(7)(e)		
							(B)(4)		

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____ Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	wn	Rental Costs/Mo Willams 2006 typical exp $	O & M/Mo Willams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)		(B)(7)(e) (B)(4)		(B)(4) (B)(7)(e)	(B)(4)	(B)(7)(e) (B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	(B)(7)(e)
Subtotal Compressors							(B)(4)	(B)(7)(e)	
(B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e)		(B)(4) (B)(7)(e)	

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Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	wn	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(4) (B)(7)(e)	

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Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location		Type Equip	Capacity	Model / Manufacturer	wn	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(7)(e)	(B)(7)(e)	(B)(7)(e)		(B)(7)(e)	(B)(7)(e)			(B)(7)(e)	
(B)(4)	(B)(4)	(B)(4)		(B)(4)					
	(B)(7)(e)								
	(B)(4)								
Subtotal Dehydrators							(B)(4)		
(B)(4)	(B)(4)	(B)(4)		(B)(4)				(B)(7)(e)	
(B)(7)(e)	(B)(7)(e)	(B)(7)(e)		(B)(7)(e)	(B)(7)(e)		(B)(4)	(B)(4)	
						(B)(7)(e)			
(B)(4)		(B)(7)(e)			(B)(4)			(B)(7)(e)	
(B)(7)(e)	(B)(7)(e)	(B)(4)							

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	wn	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
(B)(4) a	b	c	(B)(4) d	e	(B)(4) f	g	h	(B)(4) i	j
(B)(7)(e)	(B)(7)(e)		(B)(7)(e)					(B)(7)(e)	(B)(7)(e)
Subtotal Pipeline & Allowed Booster Compressors									
Grand Total									

Total O & M and GA Expenses
Pipeline) & M and GA Expenses

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Final 2/2/09

Location			Type Equip	Capacity	Model / Manufacturer	wn	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Ga			(B)(4)		(B)(7)(e)			(B)(4)		(B)(7)(e)

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrly Exp
(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e)

Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yearly Exp
		(B)(4) (B)(7)(e)		

Dehydration	O&M	O/H Resv.	Fluid	Total	Total Yrly Exp
				(B)(4)	(B)(7)(e)

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Work paper: Monthly Expenses

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION 2007

a	b	c	d
	Total Units	Exterran	Williams
Compressors	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Unidentified Location Depreciation			
Total Unidentified Location ROI			

(B)(4)
(B)(7)(e)

	Total					
Units (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4)	(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(7)(e)						
Units (B)(7)(e)						
Units						
Units (B)(4) (B)(7)(e)						
Units (B)(7)(e)						
Units						

(B)(7)(e) (B)(4)

(B)(4)

Total Exterran Williams

Units

(B)(4)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units

(B)(4)

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Units

(B)(4)
(B)(7)(e)

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

	Total	Exterran	Williams		
Units (B)(7)(e)					
Units (B)(7)(e)				(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4)				(B)(4) (B)(7)(e)	
Units (B)(4)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			
Units (B)(4)					
Units (B)(4)				(B)(4) (B)(7)(e)	
Units (B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Units (B)(4) (B)(7)(e)					

	Total Compression Depreciation		Total Compressors
Total from Capital Costs wp	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e) Total Compressors	(B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

ROI Dehydrators

Legacy Location Description	BBB 2006
(B)(7)(e) (B)(4)	
Grand Total	

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(7)(e)

(B)(4)

$

$

$

Deb

Legacy Location Description	Yearly Costs
(B)(4) (B)(7)(e)	
Grand Total	

Allow
N/A

MANZANARES 2006
DEHYDRATORS - DEPRECIATION AND ROI BY UNIT AND LOCATION

a	b	c
	Total Units	
Dehydrators Units	(B)(4)	
Total Unidentified Location Depreciation	(B)(7)(e)	
Total Unidentified Location ROI		
	Total	
Units (B)(4) (B)(7)(e)		
Units (B)(4)		(B)(4) (B)(7)(e)
Units (B)(4)	(B)(4) (B)(7)(e)	
Units (B)(4)		
Units (B)(7)(e)		
Units (B)(4) (B)(7)(e)		
Units (B)(4) (B)(7)(e)		

Units
(B)(4)

Units
(B)(4)

Units
(B)(7)(e) (B)(4)

Units
(B)(4)

Units
(B)(7)(e) (B)(4)

Units
(B)(7)(e) (B)(4)

Units
(B)(7)(e) (B)(4)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total from Capital Costs wp	Total Dehydration Depreciation (B)(4) (B)(7)(e)	Total Dehydrators (B)(4) (B)(7)(e)	**Total Dehydrators** (B)(4) (B)(7)(e)
Total from Capital Costs wp	Total Dehydration ROI (B)(4) (B)(7)(e)	Total Dehydrators	

b= From Williams Asset Schedule see Capital Cost

All Dehydrators are (B)(4) (B)(7)(e)

Legacy Location Description	Yearly Costs
[redacted]	[redacted]
(B)(4)	
(B)(7)(e)	
Grand Total	[redacted]

Legacy Location Description	BBB 2006
(B)(4) (B)(7)(e)	
Grand Total	

Compressive Deformation by Aeration

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

= Unknown Compressive Constant = (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4)

(B)(7)(e)

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MANZANARES SYSTEM COSTS - 2006

Subtle

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd ators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP inside FERC yrly avg $	(l*365*m) $	(j+k)*12 + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4)	q + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
[redacted]																				

(B)(4)

(B)(7)(e)

Used 2006 typical mo expense

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Project Number: 1138

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd ratios				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(l*365*m) $	(j+k)*12 + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4)	(h + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
[redacted]																				(B)(4) (B)(7)(e)
Subtotal Compressors																				
[redacted]																				

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI avg	Williams 2006 typical exp %	Williams 2006 typical exp $	Williams 2006 typical exp $	$JEP Inside FERC y/ly avg $	(f*365*m) $	(j+k)*12 + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4)	0 + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

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265 Federal Royalty Audit Program
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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(f*365*m) $	[j+k]*12 + (n) $	(h + i + o)	col (p) subtotal/col (p) total	(B)(4)	g + q	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u
(B)(4)					(B)(7)(e)					(B)(4) (B)(7)(e)										
Subtotal Dehydrators																				
(B)(4) (B)(7)(e)																				
Subtotal Pipeline																				
Grand Total																				

(B)(4) (B)(7)(e)

Index Price = San Juan inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + other [illegible] expense not included in TME

(B)(7)(e) (B)(4)

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet

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MANZANARES SYSTEM COSTS - 2006

Location	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price SJBP Inside FERC yrly	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map			Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	avg $	(k*365*l) $	(l+j*12+m) $	(h + n)	col (d) subtotal/col (d) total	$53,977,920	g + q	col (r) subtotal/col (r) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	p
(B)(7)(e)	(B)(4) (B)(7)(e)																		
	(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e)		(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)						
			(B)(7)(e)		(B)(4) (B)(7)(e)														Used L7042GL typical mo exp rental

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MANZANARES SYSTEM COSTS - 2006

Location	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price SJEP inside FERC yrly avg	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map			Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule $	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	($*365*f) $	($e)*12+m) $	(h + o)	col (d) subtotal/col (d) total	$53,977,920	p + q	col (r) subtotal/col(r) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	p
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(7)(e)	(B)(4)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(7)(e)							Assume same typical mo ex (B)(4)
Subtotal Compressors																			
(B)(4) (B)(7)(e)	(B)(7)(e)			(B)(4) (B)(7)(e) (B)(7)(e) (B)(4)			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)	(B)(4)					(B)(7)(e)	

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip				Depreciation Costs	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Williams Asset Schedule $	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	SJEP Inside FERC yrly avg $	(k*365*l) $	(j+[*12+m]) $	(n + m)	col (d) subtotal/col (d) total	$53,377,920	o + q	col (r) subtotal/col(r) Total	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	p
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(7)(e) (B)(4)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)			(B)(7)(e)						

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MANZANARES SYSTEM COSTS - 2006

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner Depreciation Costs	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price SJEP Inside FERC yrly avg	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk		Williams Manzanares Compressors/Dehydrators			Williams Asset Schedule $	Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	($*365*l) $	(b*12+m) $	(n + o)	col (d) subtotal/col (d) total	$53,977,928	o + q	col (r) subtotal/col(r) Total	
a	b	c	d	e	f	g	h	i	j	k	m	n	o	p	q	r	s	t
(B)(7)(e) (B)(4)																		

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) > (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(B)(7)(e)
Where (O & M) = operating & maintain
Where (G & A) = General & Administrative

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Project Number: 1138

MANZANARES SYSTEM C

Emailed to:
Mary Williams
&
Mike Ernst
9/10/08

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo
Williams Manzanares System Ma					Williams Asset Schedule $ h	Comp/Dehy/PP ROI wp i	Williams 2006 typical exp $ j	Williams 2006 typical exp $ k
(B)(7)(e) (B)(4)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e)
		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	
			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)			

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Location		Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams Asset Schedule $	Comp/Dehy/PP ROI wp	Williams 2006 typical exp $	Williams 2006 typical exp $	Willia
a	b	c	d	e	f	g	h	i	j	k
(B)(4)	(B)(4)									(B)(4)
(B)(7)(e)	(B)(7)(e)			(B)(7)(e)	(B)(7)(e) (B)(4)					(B)(7)(e) (B)(4)
							(B)(4)			
Subtotal Dehydrators						(B)(4)			(B)(7)(e)	
(B)(7)(e)		A	(B)(4) (B)(7)(e)				(B)(7)(e)			
Subtotal Pipeline										
Grand Total										

Index Price = San Juan Inside FERC monthly average, then use the yearly average

(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(B)(4) (B)(7)(e)

Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet

(B)(4) (B)(7)(e) = Known & Unknown Costs

9/17/2008
Manzanares Cost- Trunk C Manzanares Cost wp
JAM

Williams Financial Data and Typical Equipment Expenses

(B)(4)
(B)(7)(e)

(000's)

	Operating Costs					O&M				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Manzanares Gathering (B)(4) (B)(7)(e)	(B)(7)(e)					(B)(4)				

	G&A				
	2006	2005	2004	2003	2002
Manzanares Gathering (B)(4) (B)(7)(e)	(B)(4)				(B)(7)(e)

Typical Monthly Expenses [1]	Rental	O&M	Fuel
(B)(4) (B)(7)(e)	$ (B)(4) (B)(7)(e)	$	200 Mcf/d 12 Mcf/d

[1] 2006 typical expenses
[2] Typical dehydrator purchase price

(B)(4)
(B)(7)(e)

Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

Labor

yearly what year?

yearly

MANZANARES SYSTEM COSTS

?

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
						$	$	$	$	$	$	$
a		b	c	d	e	f	g	h	i	j	k	l
TRUNK	(B)(7)(e)											

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(7)(e)

?

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Fuel mcf/d Williams 2006 typical exp $	Index Price $	Fuel Costs (h*365+i) $	Total Monthly Cost (f+g+j) $	Depreciation Costs Williams Asset Schedule $
Williams Manzanares System I	Trunk												
a	(B)(4)	(B)(7)(e)	b	c	d	e	f	g	h	i	j	k	l
TRUNK													

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
(B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)		200 200 200 200 12 12 200 200 200 200 200 200 200 200 200 200 200 200 200	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e) (B)(7)(e) (B)(7)(e)	(B)(7)(e) (B)(4) (B)(7)(e)	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l
TRUNK		(B)(7)(e)											

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
(B)(4) (B)(7)(e)	(B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(7)(e)	(B)(7)(e)	(B)(7)(e)		(B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System #	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l
TRUNK (B)(4)		(B)(7)(e)											

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
					(B)(4)		(B)(7)(e)	200				
			(B)(4)					200				
(B)(7)(e)			(B)(7)(e)	(B)(4)		(B)(4)		200				
		(B)(4)						200				
		(B)(7)(e)		(B)(7)(e)			(B)(7)(e)	200				
								200				
								200				
								200				
								200				
	(B)(7)(e)		(B)(4)					200				
			(B)(7)(e)					200				
							(B)(7)(e)	200				
								200				
								200				
			(B)(4)					200				
			(B)(7)(e)					200				
			(B)(4)	(B)(7)(e)	(B)(4)	(B)(7)(e)		200				
			(B)(7)(e)	(B)(4)				200				

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l
TRUNK (B)(4)		(B)(7)(e)											
Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
[redacted]	[redacted]		[redacted]		[redacted]	[redacted]			200				
						(B)(7)(e)		(B)(4)	200				
									200				
									200				
				(B)(4)	(B)(7)(e)								
				(B)(7)(e)									
			(B)(7)(e)										
			(B)(4)										
						[redacted]			200				
						[redacted]			200				
						(B)(7)(e)		(B)(4)	200				
									200				
(B)(4)	(B)(4)			(B)(4)									
(B)(7)(e)	(B)(7)(e)			(B)(7)(e)									
						(B)(7)(e)		(B)(4)	200				
									200				
									200				
									200				
						(B)(4)							
				(B)(4)		(B)(7)(e)							
				(B)(7)(e)									

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
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MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Williams 2006 typical exp $	O & M/Mo Williams 2006 typical exp $	Fuel mcf/d Williams 2006 typical exp $	Index Price $	Fuel Costs (h*365+i) $	Total Monthly Cost (f+g+j) $	Depreciation Costs Williams Asset Schedule $
Williams Manzanares System I	Trunk												
a			b	c	d	e	f	g	h	i	j	k	l
TRUNK (B)(4)		(B)(7)(e)											

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
[redacted] (B)(7)(e) (B)(4)		(B)(7)(e)	[redacted] (B)(4) (B)(7)(e)	[redacted] (B)(4) (B)(7)(e)									[redacted] (B)(4) (B)(7)(e)

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System #	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a		(B)(7)(e)	b	c	d	e	f	g	h	i	j	k	l
TRUNK(B)(4)													

	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
(B)(7)(e) (B)(4)	(B)(7)(e) (B)(4)										(B)(7)(e) (B)(4)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Willams 2006 typical exp	Willams 2006 typical exp	Willams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a			b	c	d	e	f	g	h	i	j	k	l
TRUNK (B)(4)		(B)(7)(e)											

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)										(B)(4) (B)(7)(e)
Grand Total											

5/13/04 - Telephone call w/ Mike Clark

(B)(4)

(B)(7)(e)

Amy Brinkdorus - Charlie Brown
Opis prius - negotiating

T&F

(B)(4)
(B)(7)(e)

Platts Prices

(Opis)

Frank
202.564.4230
T-423

for Pupilline –

(B)(4)
(B)(7)(e)
(B)(7)(e)

Avg Costs Per Day

(B)(7)(e)

(B)(2)

5/26

(B)(4)

(B)(7)(e)

5/29

(B)(7)(e)

5/30

April 24
May 25

Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Monday, November 19, 2007 3:36 PM
To: Brown, Charles R.
Cc: Keeton, Geary; Inderbitzin, Sarah L; Lougee, Jack R., TRD; Maddux, Julia, TRD; maberry, maryann, TRD
Subject: Agenda for Wednesday meeting

Charlie

I've circulated this e-mail to those on the attendees list but I write it to you, Charlie. If anyone has any discussion points I've missed in this letter I ask the addressee to send a response to all with items they wish to include in the teleconference.

I have a teleconference number for us to dial for our meeting:

1. Dial the main number 866-804-0604
2. When you are prompted enter the participant code 1702731

That should get you into the group telephone call. I have the Mile High Room scheduled.

Time

Wednesday November 21st 9:(omise to stay under one hour.

2/5/08
Per Mike Ernest
Charlie Brown called
him on 1/31/08
& told him information
from 1st date request
would be mailed within
the next (2) weeks.

Attendees

Williams Midstream
Charlie Brown

MMS
Office of Enforcement
Geary Keeton
Sarah Inderbitzin - tentative
FEDCAM
Mike Ernest

State of New Mexico Oil and Gas Bureau
Jack Lougee
Julia Maddux
Maryann Mayberry - tentative

Topics

Generally, we can begin by reviewing the information the MMS and the State of New Mexico needs from the Williams Companies for our work on determining allowable costs for transportation in the Manzanares system. In

our last conversation, we talked about CDPs being a good starting point and then following the flow of the gas as it moves to the Milagro plant. I have screen prints from the control room monitors of plants using the same control software as Milagro plant that would serve our purpose. However, the protection of your data is of the utmost concern for us. I've received approvals for the stand alone PC workstation removed from any network access. We discussed that as a storage option for security purposes if Williams provides GIS format files of the system.

Specifically, I'm interested in Page One, FORM MMS-4295 for the Manzanares System Williams Production has filed beginning with the 2001 filing. I have the supporting schedules for all the periods but not Page One. Williams did supply Page One for the FORM MMS-4109 for the Ignacio plant so I can see this as an oversight. Also, I've run across Williams Four Corners LLC invoices and volume allocations schedules for Contract 114 - WPX Gas Resources. I'm thinking this type of information exists and shouldn't be too cumbersome to download and provide to us. I'd like to discuss what other invoices and contracts may be helpful to rounding out our research.

I have a specific need for the percentage breakdown for fuel use between the gathering and treatment (plant) categories in the Manzanares. We did speak about this earlier but I see this as the last conversation on this subject.

The State of New Mexico would like to discuss two items; their Request for Information dated May 2007 and a draft of a second request for information they would plan to provide Williams. I believe they call it a draft with the intention of discussing its contents with you and receiving your input before finalizing the letter. This is a new topic for me today but I'll get you a review copy first thing tomorrow.

Thanks for everything Charlie. I've been called a few names around here for scheduling a meeting on Wednesday so I'd like everyone to know I appreciate their participation. Happy Holidays!

Mike

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This inbound email has been scanned by the MessageLabs Email Security System.

Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]

Sent: Monday, November 19, 2007 3:36 PM

To: Brown, Charles R.

Cc: Keeton, Geary; Inderbitzin, Sarah L; Lougee, Jack R., TRD; Maddux, Julia, TRD; maberry, maryann, TRD

Subject: Agenda for Wednesday meeting

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Time

Wednesday November 21st 9:00 am Mountain time - 10:00 am Central time. I promise to stay under one hour.

Attendees

Williams Midstream
Charlie Brown

MMS
Office of Enforcement
Geary Keeton
Sarah Inderbitzin - tentative
FEDCAM
Mike Ernest

State of New Mexico Oil and Gas Bureau
Jack Lougee
Julia Maddux
Maryann Mayberry - tentative

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Mike

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New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
(505) 827-0341
Administrative Services
(505) 827-0369
Audit and Compliance
(505) 827-0900
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

Change Due Date to February 3rd
Per Jade

November 19, 2007

DRAFT

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

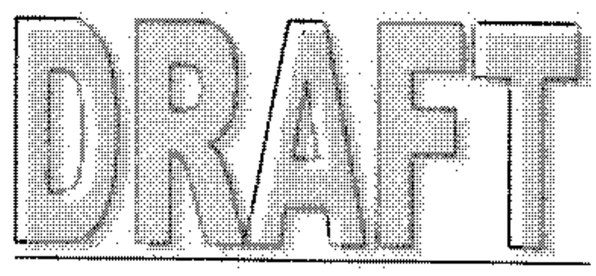
Mr. Charles R. Brown
Mid-Stream Gas and Liquids
One Williams Center
P.O. Box 645
Tulsa, OK 74172

SECOND REQUEST FOR INFORMATION RESPONSE DUE THIRTY DAYS FROM RECEIPT OF THIS LETTER

Dear Mr. Charles R. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information following the tour of the Manzanares plant and system July 17, 2007. We understand that producers generally pay a bundled fee for transportation (also called gathering) and/or treating. We are asking your assistance in providing us further information on your bundled services in order to determine the allowable costs of transportation per MMS regulation 30 CFR § 206.156.

Charles R. Brown
Mid-Stream Gas and Liquids



What information is requested?

- Costs for typical equipment in order to determine the percentage of fee per equipment (see diagram).
- nformation necessary to validate the costs stated above i.e. operational, maintenance, ind capital including depreciation.
- ist of producers and actual volumes by year for the last five (5) years - (B)(5) (B)(7)(e)

(B)(5)

What is our authority? (B)(7)(e)

Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and 30 U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian tribe.

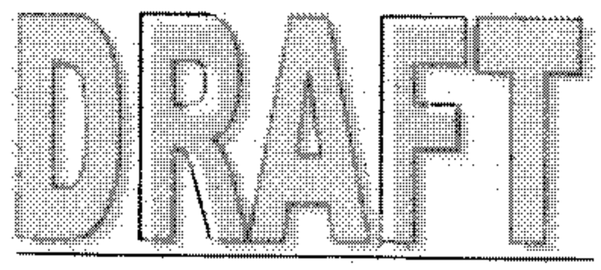
Implementing regulations relative to require records keeping are located in 30 CFR § 212 (2006).

Failing to provide requested information necessary for us to complete our audits may be treated as a knowing or willful violation under 30 CFR 241.51 (2006). Your response is due thirty days from receipt of certified letter.

What if you have questions?

If you have any questions, please contact Julia Maddux at (505) 222-6616, Julia.Maddux@state.nm.us, or Maryann Maberry at (505) 827-9818, Maryann.Maberry@state.nm.us.

Charles R. Brown
Mid-Stream Gas and Liquids



Sincerely,

Jack Lougee, Federal Royalty Audit Supervisor
205 Federal Royalty Audit Program

Encl: Manzanares Gathering System diagram

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

John Price, Chief of Enforcement
Minerals Management Service
Mineral Revenue Management
Office of Enforcement
P.O. Box 25165, MS 370B2
Denver, CO 80225

Morris Miller
Williams Production Company
P.O. Box 3102, MD 37-5
Tulsa, OK 74101

Maddux, Julia, TRD

From: Ernest, Mike [Mike.Ernest@mms.gov]
Sent: Friday, January 23, 2009 10:14 AM
To: Lougee, Jack R., TRD; Maddux, Julia, TRD
Cc: Morris, James
Subject: Milagro Payors by %

Jack and Julia

Seems like the percentage breakout we developed for the San Juan Basin should be adjusted for the Milagro/Manzanares system.

For example, Devon and XTO do not report any gas flowing to Milagro. So I'd say contacting them with percentage breakouts doesn't make sense. Am I missing something?

See the attached spreadsheet for royalties reported flowing through the Milagro plant.

Mike

<<Milagro Payor Totals.xls>>

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

[redacted]

INLET *OUTLET*

(B)(4)
(B)(7)(e)

Bulk File# _____

Preparer/Date: [redacted]
Reviewer/Date:
Work Paper Number: **E1**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(7)(e)

(B)(4)
(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 7/25/2007**
Reviewer/Date:
Work Paper Number: **E1**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

TYPICAL FIELD COMPRESSORS:

(B)(4)
(B)(7)(e)

Questions for MMS, based on the Devon decision:

1. Is typical field compression allowed?
2. Is typical field dehydration allowed?
3. Are the C1 & C2 compressors at the inlet to Chaco plant allowed?
4. Are the A & B compressors at Chaco plant allowed?
5. Is the plant dehydration allowed?
6. Are the residue compressors after the Cryo plant allowed?

Bulk File# _____

Preparer/Date: **MAM 7/25/2007**
Reviewer/Date:
Work Paper Number: **E1**

Manzanares System Costs

YEAR	2003	2004	2005	2006	2007
Allowed Costs	(B)(4)				
Disallowed Costs					
	100.00%	100.00%	100.00%	100.00%	100.00%
	(B)(7)(e)				
Fuel Allowed	(B)(4)				
Fuel Disallowed					
	(B)(7)(e)				

Attachment 6

Plan:

Determination of marketable condition point

Syst

Total yearly (O)
+ Allocated DECon
Operational (R)

n equipment
pecific points

Dete

ot allowed
equi

Req

Prepare schedules and write-ups

Disseminated percentages to auditors

Auditor prepares issue letters and collects money

Maddux, Julia, TRD

From: Keeton, Geary [Geary.Keeton@mms.gov]

Sent: Sunday, November 16, 2008 3:53 PM

To: Williams, Mary; Lougee, Jack R., TRD; Sologub, Sergey, TRD; Maddux, Julia, TRD; Ernest, Mike

Cc: Sant, Donald; Severson, Valdean H., TRD

Subject: Enterprise Requests for Information

(B)(4)

(B)(7)(e)

I just received a call from Poe Leggette. A letter is on the way to Mary advising us that they won't be providing any cost information to New Mexico Audit that could be used for the purpose it was requested; i.e., unbundling the fees. When we get it, I assume you'd all agree that I should proceed with the next step which is to **(B)(4)**

(B)(4) **(B)(7)(e)**

(B)(7)(e)

GK

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Maddux, Julia, TRD

Subject: Meet with Williams on Manzanares

Start: Fri 11/14/2008 10:00 AM
End: Fri 11/14/2008 10:30 AM

Recurrence: (none)

Chad & Charlie will call on Friday 14th to discuss revised spreadsheet.

Had teleconference with Charlie & Chad. [redacted]

They think they could have this done by December 15 or before.

[redacted]

(B)(4)
(B)(7)(e)

Tentative dates for meeting depending on whether work is completed and schedules.

December 4th, 5th

Or

December 17th

Told them that Jack will be back on Monday & we will call them.

Standard and Poor[illegible]rporate Government
Bond Yield Index for
Industrial Triple B (BBB) 15 Year Bond Rates

Year	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1988	10.38	10.11	10.30	10.60	10.87	10.70	10.71	10.83	10.56	10.46	10.44	10.24
1989	10.19	10.24	10.46	10.34	10.15	9.68	9.67	9.74	9.79	9.71	9.58	9.61
1990	9.88	10.15	10.19	10.29	10.30	10.05	10.07	10.33	10.53	10.35	10.03	9.85
1991	9.88	9.61	9.82	9.67	9.61	9.80	9.74	9.44	9.27	9.22	9.25	9.07
1992	9.25	9.44	9.47	9.42	9.25	9.20	9.01	8.89	8.98	9.13	9.14	8.99
1993	8.94	8.81	8.73	8.79	8.84	8.72	8.63	8.45	8.01	8.16	8.27	8.28
1994	8.28	8.19	8.35	8.57	8.79	8.83	9.03	8.92	9.27	9.55	9.67	9.47
1995	9.44	9.23	8.98	8.78	8.36	8.17	8.28	8.37	8.16	8.08	8.01	7.87
1996	6.99	7.10	7.70	7.95	8.08	8.21	8.11	7.87	8.07	7.72	7.39	7.50
1997	7.73	7.54	7.84	7.99	7.93	7.73	7.45	7.49	7.38	7.21	7.19	7.19
1998	7.18	7.09	7.13	7.13	7.12	6.99	7.05	7.03	6.96	7.16	7.46	7.26
1999	7.36	7.46	7.58	7.43	7.69	8.08	8.04	8.38	8.50	8.64	8.44	8.64
2000	8.81	8.58	8.66	8.75	9.31	8.95	8.83	8.71	8.84	8.70	8.63	8.44
2001	8.29	8.26	8.27	8.44	8.53	8.34	8.36	8.16	8.18	8.13	8.14	8.41
2002	8.26	8.13	8.31	8.19	8.11	7.89	7.93	7.71	7.41	7.71	7.43	7.30
2003	7.19	7.09	7.12	7.05	6.57	6.40	6.85	7.32	7.07	7.00	6.84	6.70
2004	6.40	6.43	6.23	6.84	7.37	7.14	7.22	6.99	6.82	6.34	5.80	5.75
2005	5.65	5.51	5.80	5.84	5.82	5.63	5.68	5.76	5.73	6.05	6.18	6.10
2006	6.09	6.13	6.27	6.73	6.80	6.85	6.85	6.66	6.53	6.56	6.37	6.28
2007	6.47	6.48	6.26	6.41	6.38	6.63	6.64	6.71	6.77	6.93	6.84	6.78
2008	6.88	7.33	7.38	7.19	7.22	7.42	7.48	7.54	7.54	8.59	9.94	9.67*
2009	9.37	9.34	9.61	9.36	8.80							

Beginning with September 2007, the data provided by S&P used Wednesday as the close of each week.
All preceding months and years, the weekly average was calculated with Friday as the close of the week.
Calculations by individual companies may vary from above stated averages, due to different day used as close of week by SP for subscriptions.

* Per S&P - Weekly calculations were only made for 1st 3 weeks of December. No bond rate yields for Dec 22-Dec 31 were posted.

Standard and Poor's, BBB, Industrial, 15 year, Average

September	2008
9/3/2008	7.43
9/10/2008	7.34
9/14/2008	7.51
9/24/2008	7.86
Total	30.14
Monthly Avg.	**7.54**

October	2008
10/1/2008	8.02
10/8/2008	8.04
10/15/2008	8.91
10/22/2008	9.4
10/29/2008	9.75
Total	34.37
Monthly Avg.	**8.59**

November	2008
11/5/2008	10
11/12/2008	10.05
11/19/2008	9.8
11/26/2008	9.92
Total	39.77
Monthly Avg.	**9.94**

December	2008
12/3/2008	9.79
12/10/2008	9.74
12/17/2008	9.48
12/24/2008 n/a	
12/31/2008 n/a	
Total	29.01
Monthly Avg.	**9.67** *

January	2009
1/7/2009	9.54
1/14/2009	9.27
1/21/2009	9.27
1/28/2009	9.38
Total	37.46
Monthly Avg.	**9.37**

February	2009
2/4/2009	9.47
2/11/2009	9.35
2/18/2009	9.23
2/25/2009	9.32
Total	37.37
Monthly Avg.	**9.34**

March	2009
3/4/2009	9.46
3/11/2009	9.62
3/18/2009	9.79
3/25/2009	9.55
Total	38.42
Monthly Avg.	**9.61**

April	2009
4/1/2009	9.45
4/8/2009	9.55
4/15/2009	9.37
4/22/2009	9.23
4/29/2009	9.18
	46.78
	9.36

May	2009
5/6/2009	8.83
5/13/2009	8.66
5/20/2009	8.66
5/27/2009	9.04
Total	35.19
Monthly Avg.	**8.80**

Note:
Beginning with September 2007 data. S&P is providing information based on Wednesday as the close of the week as opposed to the historical data previously provided which used Friday as the close date of the week.
All historical data now provided by S&P for all prior years uses Wednesday as the close of the week.
This change in day can cause slight differences in rates already calculated by MMS and those calculated by companies if the company uses data which S&P now provides. 3/6/07 Patricia Kann

* Per S&P - Weekly calculations were only made for 1st 3 weeks of December. No bond rate yields for Dec 22-Dec 31 were posted.

Manzanares Dehydrators
As of 12-31-2003

Unknown Dehydration Locations from Dehydration Depreciation Schedule 2003

	Yearly Cost
	(B)(4)
	(B)(7)(e)
Total Unkown Depreciation	

New Mexico Oil & Gas Bureau
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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 2-25-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(a) subtotal/col (o) Total
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	
a	d	e	f	g	h	i	j	k	l	m	n	o	p
[redacted]													(B)(4) (B)(7)(e)
						(B)(4) (B)(7)(e)							

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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 2-25-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Aaset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)												(B)(4) (B)(7)(e)	
Subtotal Compressors									(B)(4) (B)(7)(e)				
(B)(4) (B)(7)(e)													

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Cost Project
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MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Final 2-25-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel meter	Unbundled Percentage for fuel
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	col(o) subtotal/col (o) Total
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)												(B)(4) (B)(7)(e)	

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Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

Rec'd 2-25-2009

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2005 typical exp $	
a	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)												(B)(4) (B)(7)(e)	
Subtotal Dehydrators												(B)(4) (B)(7)(e)	

Allowed Costs

(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		

Prepared by: Julia Maddox Date: 2/6/09
Reviewed by: _____Date: _____
Workpaper Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2005
Unbundling Percentage Calculation

Disallowed Costs

[redacted]

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (p) Total
Williams Manzanares System Map	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (n) subtotal/col(p) Total	Williams 2005 typical exp $	
a	d	e	f	g	h	j	i	k	l	m	n	o	p
[redacted]													
Subtotal Pipeline & Allowed Booster Compressors													
Grand Total													

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Allowed Disallowed	[redacted]	Allowed Fuel Disallowed Fuel	[redacted]

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainenc
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are owned by Williams. [redacted]

(B)(4)
(B)(7)(e)

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Tuesday, November 04, 2008 9:41 AM
To: 'Ernest, Mike'
Subject: Revised Manzanares Cost

Mike,

We revised the Manzanares Cost worksheet following our discussion last week. We allocated the (B)(4) costs to (B)(7)(e) we moved them down to bottom of the pipeline section. Will MMS be giving us guidance documentation for the Manzanares and (B)(4) plants?
(B)(7)(e)

Thanks, (B)(4)
(B)(7)(e)

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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11-14-02

Teleconference
Jackie Charlie

(B)(4)
(B)(7)(e)

Before 15th of December.
Draft speed sheet W/O.

Week Wc 15th

Tuesday 4th / 5th
18th / 19th 3 9:30 am

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel traffic	Unbundled Percentage for fuel
		Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd																
Williams Manzanares System Map	Trunk						Williams Asset Schedule	Comp/Dehy/PP ROI exp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)/12	(h + l + i)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Jana Maddux Date 11/10/08
Reviewed by _____ Date _____
Work Paper Manzanares Cost

New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/1/08

MANZANARES SYSTEM COSTS - 2006

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Total w/ROI	Unbundled Percentage for Gas
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators			Williams Asset Schedule	Comp/Dehy/TP-SOR exp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i +l)	col (m) subtotal/col (m) total			col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(r) subtotal/col (s) Total
a	b	c	d	e	f	g		$ i	$ k	$	m	n	o		q	r	s	t
(B)(4) (B)(7)(e)													(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	
Subtotal Compressors													(B)(4) (B)(7)(e)					
(B)(4) (B)(7)(e)																		

Prepared by Jules Maddux Date 11/10/08
Reviewed by _____ Date _____
Work Paper Manzanares Cost

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs		Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
		Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy PP &E wo	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + l + i)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	total subtotal/col (s) Total
							$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Julie Medlus Date: 11/10/09
Reviewed by:_____Date_____
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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Project Number: 1138

Draft 11/10/08

MANZANARES SYSTEM COSTS - 2006

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Depreciation/Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk						Williams Asset Schedule	Comp/Dehy/PP ROI exp	Williams 2006 typical exp	Williams 2006 typical exp	(j+k)*12	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
							$		$	$	$								
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
							(B)(4) (B)(7)(e)							(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	
Subtotal Dehydrators							(B)(4) (B)(7)(e)											(B)(4) (B)(7)(e)	
							(B)(4) (B)(7)(e)												
Subtotal Pipelins & Allowed Booster Compressors																		(B)(4) (B)(7)(e)	
Grand Total							(B)(4) (B)(7)(e)											(B)(4) (B)(7)(e)	

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
83,291,615 - 31,081,563 = 52,210,052
Where (O & M) = operating & maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrations are owned by Williams, there is no rental expense.

Allowed
Disallowed

(B)(4)
(B)(7)(e)

Prepared by: Julie Mathis Date: 11/10/08
Reviewed by ..... Date .....
Work Paper: Manzanares Cost

New Mexico Oil & Gas Bureau
2005 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs: Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg		(j+k)*12 + (n)	(h + l + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)

(B)(7)(e)

Used 2008 typical mo expense

Prepared by: Juan Medina Date: 9/30/2008
Reviewed by: ..... Date .....
Work paper: Manzanares Cost

New Mexico Oil & Gas Bureau
208 Federal Royalty Audit Program
Cost Project
Project Number: 1138

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Cost/Mo	O & M/Mo	Fuel mcfd	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd rators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	BJEP Inside FERC yrly avg	(l*365*m)	(j+k)*12 + (n)	(n + l + o)	col (p) subtotal/col (p) total		(q + r)	col (s) subtotal/col(s) Total	
a	b	c	d	e	f	g	$ h	i	$ j	$ k	$ l	$ m	$ n	$ o	p	q		r	s	u
																	(B)(4) (B)(7)(e)			
(B)(4) (B)(7)(e)																				
Subtotal Compressors																				
#N/A Dehy Total			Dehy				42,857				3.28542			0						

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
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Project Number: 1138

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MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehyd rators				Williams Asset Schedule	Comp/Dehy/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP Inside FERC yrly avg	(f*365*m)	(j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Subtotal Compressors

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/30/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Delyd rators				Williams Asset Schedule	Comp/Delyd/PP ROI w/p	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	SJEP inside FERC yrly avg	(f*365*m)	((j+k)*12 + (n)	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
							e	f	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

DRAFT 9/3/08

MANZANARES SYSTEM COSTS - 2006

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Yearly Fuel Cost	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams Asset Schedule	Comp/Bldg/PP ROI wp	Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp	IUEP Inside FERC yrly avg	(l*365*m)	([j+k]*12 + [n])	(h + i + o)	col (p) subtotal/col (p) total		(p + r)	col (s) subtotal/col(s) Total	
							$		$	$	$	$	$	$						
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Subtotal Dehydrators

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Subtotal Pipeline
Grand Total

(B)(4)
(B)(7)(e)

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME

Where (O & M) = Operating & Maintenance
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet

(B)(4)
(B)(7)(e)

0 8425

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number 1138

Manzanares System

Date	Data Request #	Status			Comments
		Received	Date Rcvd	Outstanding	
5/10/2007	1			X	Expect to receive week of April 25th, 2008
11/27/2007	2	X	2/27/2008		Received February 2008
4/24/2008	3			X	Due May 26, 2008

Maddux, Julia, TRD

From: Bracher, Chad [Chad.Bracher@Williams.com]
Sent: Friday, January 09, 2009 12:01 PM
Subject: Read: Manzanares System

Your message

To: Chad.Bracher@Williams.com
Subject:

was read on 1/9/2009 12:01 PM.

Maddux, Julia, TRD

From: Brown, Charles R. [Charlie.Brown@Williams.com]
Sent: Friday, January 09, 2009 11:28 AM
Subject: Read: Manzanares System

Your message

To: Charlie.Brown@Williams.com
Subject:

was read on 1/9/2009 11:28 AM.

Manzanar[redacted]7 Additions

Asset Number	Asset Description	Retirement Unit	Lecacy Location Description	In Service Date	activity_cost
Compressors					
[redacted]					
Dehydrators					
[redacted]					
Pipelines					
[redacted]					

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

2007 Manzanares Pipeline Depreciation Costs

Line	Legacy Location Description	.0647 * 1.3
4101	#N/A	
4102	#N/A	
4103	#N/A	
4104	#N/A	
4105	#N/A	
4106	#N/A	
4107	#N/A	
4108	#N/A	
4109	#N/A	
4110	#N/A	
4111	#N/A	
4112	#N/A	
4113	#N/A	(B)(4)
4114	#N/A	(B)(7)(e)
4115	#N/A	
	(B)(4)	
4116	#NA (B)(7)(e)	
Grand Total	(B)(4) (B)(7)(e)	

Manzanares Pipeline
As of 12-31-2007

Line	Legacy Location Description	Yearly Cost
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
4116	**Grand Total**	

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 2-26-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
													n	o	p
[redacted]														(B)(4) (B)(7)(e)	

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Disallowed Costs

Final 2-26-2009

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2008 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
Subtotal Compressors															

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Julie Maddux Date: 2/16/09
Reviewed by: _____ Date: _____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
208 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Disallowed Costs

Final 2-26-2009

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(e)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (e) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Prepared by: Julia Maddox Date: 2/16/09
Reviewed by: _____Date: _____
Workpaper Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1158

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Final 2-26-2009

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
							(B)(4) (B)(7)(e)								(B)(4) (B)(7)(e)
Subtotal Dehydrators								(B)(4) (B)(7)(e)							

Allowed Costs

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Disallowed Costs

Final 2-26-2009

MANZANARES SYSTEM COSTS - 2007
Unbundling Percentage Calculation

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (d) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	sum (h:l)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
[redacted]														[redacted]	
Subtotal Pipeline & Allowed Booster Compressors															
Grand Total															

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Allowed Disallowed	Allowed Fuel Disallowed Fuel
[redacted]	[redacted]

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are owned by Williams [redacted]
Operational and depreciation expen [redacted]

(B)(4)
(B)(7)(e)

COMPRESSORS - DEPRECIATION AND ROI BY UNIT AND LOCATION 2007

a	b	c	d
Compressors	Total Units	Exterran	Williams
Total Unidentified Location Depreciation	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Total Unidentified Location ROI			

(B)(4)
(B)(7)(e)

	Total	Exterran	Williams
Units (B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			
Units (B)(4) (B)(7)(e)			

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Total Exterran Williams

Units

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

	Total Compression Depreciation		Total Compressors
Total from Capital Costs wp	(B)(4) (B)(7)(e)	Carracas Esperanza Total Compressors	(B)(4) (B)(7)(e)

	Total Compression ROI
Total from Capital Costs wp	(B)(4) (B)(7)(e)

b= From Williams Asset Schedule see Capital Cost

Manzanares Compressors
As of 12-31-2007

Line	Legacy Location Description	BBB 2007
		(B)(4) (B)(7)(e)
	(B)(4) (B)(7)(e)	

Manzanares Compressors
As of 12-31-2007

Line	Legacy Location Description	BBB 2007
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
	Grand Total	

Unknown Compressor Locations from Compressor Depreciation Schedule 2007

	Yearly Cost
(B)(4) (B)(7)(e)	
Total Unkown Depreciation	

Manzanares Pipeline
As of 12-31-2007

Line	Legacy Location Description	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2007
	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)
4116	Grand Total			

News & Media

12/13/2006

Williams Partners L.P. Completes Acquisition of Remaining Interest in Four Corners from Williams

TULSA, Okla. – Williams Partners L.P. (NYSE:WPZ) and Williams (NYSE: WMB) announced today that Williams Partners has completed its acquisition of the remaining 74.9 percent interest in Williams Four Corners LLC that it did not own from Williams (NYSE:WMB) for $1.223 billion. Williams Partners now owns 100 percent of Four Corners.

Williams Partners completed the transaction after successfully closing a $600 million private debt offering of senior unsecured notes due 2017, a private equity offering of approximately $350 million of common and Class B units, and a public equity offering of 8.05 million common units that yielded net proceeds of approximately $293.7 million.

The net proceeds of the public equity offering include exercise, in full, by the underwriters of their option to purchase additional common units to cover over-allotments.

"This acquisition makes Four Corners – with its stable cash flows and a relatively high percentage of fee-based revenues – the cornerstone of Williams Partners' asset portfolio and enhances our ability to generate stable cash flows for our unitholders," said Alan Armstrong, chief operating officer of the general partner of Williams Partners.

The board of directors of the general partner of Williams Partners approved the transaction based on a recommendation from its conflicts committee. The conflicts committee, which is comprised entirely of independent directors, retained independent legal and financial advisers to assist it in evaluating and negotiating the transaction.

Steve Malcolm, chairman, president and chief executive officer of Williams, said the transaction is also advantageous to Williams.

"While Williams will maintain operational control of Four Corners, the low-cost capital raised through this transaction can be invested in areas where the company is actively pursuing disciplined growth," Malcolm said.

Four Corners owns certain gathering, processing and treating assets in the San Juan Basin in Colorado and New Mexico. These assets are comprised of:

- a 3,500-mile natural gas gathering system in the San Juan Basin in New Mexico and Colorado with capacity of 2 billion cubic feet per day;
- the Ignacio natural gas processing plant in Colorado and the Kutz and Lybrook natural gas processing plants in New Mexico, which have a combined processing capacity of 760 million cubic feet per day; and
- the Milagro and Esperanza natural gas treating plants in New Mexico, which are designed to remove carbon dioxide from up to 750 million cubic feet of natural gas per day.

Citigroup and Lehman Brothers acted as financial advisors to Williams in connection with this transaction.

About Williams (NYSE:WMB)
Williams, through its subsidiaries, primarily finds, produces, gathers, processes and transports natural gas. The company also manages a wholesale power business. Williams' operations are concentrated in the Pacific Northwest, Rocky Mountains, Gulf Coast, Southern California and Eastern Seaboard. More information is available at www.williams.com.

About Williams Partners L.P. (NYSE:WPZ)

Williams Partners L.P. primarily gathers, transports and processes natural gas and fractionates and stores natural gas liquids. The general partner is Williams Partners GP LLC. More information is at www.williamslp.com.

Contact:
Jeff Pounds
Williams (media relations)
(918) 573-3332

Richard George
Williams (investor relations)
(918) 573-3679

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Williams (investor relations)
(918) 573-2078

# # #

Williams' reports, filings, and other public announcements might contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of Private Securities Litigation Reform Act of 1995. You typically can identify forward-looking statements by the use of forward-looking words, such as "anticipate," believe," "could," "continue," "estimate," "expect," "forecast," "may," "plan," "potential," "project," "schedule," "will," and other similar words. These statements are based on our intentions, beliefs, and assumptions about future events and are subject to risks, uncertainties, and other factors. Actual results could differ materially from those contemplated by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such statements, other factors could cause our actual results to differ materially from the results expressed or implied in any forward-looking statements. Those factors include, among others: changes in general economic conditions and changes in the industries in which Williams conducts business; changes in federal or state laws and regulations to which Williams is subject, including tax, environmental and employment laws and regulations; the cost and outcomes of legal and administrative claims proceedings, investigations, or inquiries; the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions; the level of creditworthiness of counterparties to our transactions; the amount of collateral required to be posted from time to time in our transactions; the effect of changes in accounting policies; the ability to control costs; the ability of each business unit to successfully implement key systems, such as order entry systems and service delivery systems; the impact of future federal and state regulations of business activities, including allowed rates of return, the pace of deregulation in retail natural gas and electricity markets, and the resolution of other regulatory matters; changes in environmental and other laws and regulations to which Williams and its subsidiaries are subject or other external factors over which we have no control; changes in foreign economies, currencies, laws and regulations, and political climates, especially in Canada, Argentina, Brazil, and Venezuela, where Williams has direct investments; the timing and extent of changes in commodity prices, interest rates, and foreign currency exchange rates; the weather and other natural phenomena; the ability of Williams to develop or access expanded markets and product offerings as well as their ability to maintain existing markets; the ability of Williams and its subsidiaries to obtain governmental and regulatory approval of various expansion projects; future utilization of pipeline capacity, which can depend on energy prices, competition from other pipelines and alternative fuels, the general level of natural gas and petroleum product demand, decisions by customers not to renew expiring natural gas transportation contracts; the accuracy of estimated hydrocarbon reserves and seismic data; and global and domestic economic repercussions from terrorist activities and the government's response to such terrorist activities. In light of these risks, uncertainties, and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.
In regard to the company's reserves in Exploration & Production, the SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves. We have used certain terms in this news release, such as "probable" reserves and "possible" reserves and "new opportunities potential" reserves that the SEC's guidelines strictly prohibit us from including in filings with the SEC. The SEC defines proved reserves as estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs under the assumed economic conditions. Probable and possible reserves are estimates of potential reserves that are made using accepted geological and engineering analytical techniques, but which are estimated with reduced levels of certainty than for proved reserves. Possible reserve estimates are less certain than those for probable reserves. New opportunities potential is an estimate of reserves for new areas for which we do not have sufficient information to date to raise the reserves to either the probable category or the possible category. New opportunities potential estimates are even less certain that those for possible reserves. Reference to "total resource portfolio" include proved, probable and possible reserves as well as new opportunities potential. Investors are urged to closely consider the disclosures and risk factors in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2006, and our quarterly reports on Form 10-Q available from our offices or from our website at www.williams.com.

Williams Partners' reports, filings and other public announcements might contain or incorporate by reference forward-looking statements – statements that do not directly or exclusively relate to historical facts. You typically can identify forward-looking statements by the use of forward-looking words, such as "anticipate," believe," "could," "continue," "estimate," "expect," "forecast," "may," "plan," "potential," "project," "schedule," "will" and other similar words. These statements are based on our intentions, beliefs and assumptions about future events

Williams Manzanares Compressors
Exhibit "A"

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP

(B)(4)
(B)(7)(e)

Williams Manzanares Compressors
Exhibit "A"

Compressor		Mfg. of	Frame		Engine		Site

(B)(4)

(B)(7)(e)

Williams Manzanares Compressors
Exhibit "A"

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP

(B)(4)
(B)(7)(e)

CONFIDENTIAL

Williams Manzanares Allocation Example

Location	Unit Type	Unit Ownership	Direct Depreciation	Indirect Depreciation	Area Depreciation	Direct ROI	Indirect ROI	Area ROI
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		

(B)(4) (B)(7)(e)

(B)(7)(e) (B)(4)

Units	Total	Exterran	Williams
	(B)(4) (B)(7)(e)		

Units	Total	Exterran	Williams
	10	2	8
	(B)(4) (B)(7)(e)		

Appurtenances Costs	(B)(4) (B)(7)(e)
Unit Costs	
Williams Unit	(B)(4) (B)(7)(e)
Exterran Unit	

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

MEMORANDUM

TO: Lorraine McGuinness

From: Julia Maddux

Date: December 6, 2007

Subject: Mailing Project: 1138 (Second Data Request)

Please Mail the attached document to the following :

Original: - Certified Return Receipt

Mr. Jose Velasquez
Director San Juan/Val Verde
Enterprise Products
614 Relilly Avenue
Farmington, NM 87401

Copies To:

1. Mike Ernest
   Minerals Management Service
   Minerals Revenue Management
   Onshore Compliance and Asset Management
   P.O. Box 25165, MS 392B2
   Denver, CO 80225

Manzanares Area assets for Compressors, Dehydrators and Pipeline
As of December 31, 2006
COMPRESSORS

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
[redacted]	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

Asset Number	Asset Description	Asset Location	Legacy Location	Legacy Location Description	Work Order Number
	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	

New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit of: ConocoPhillips
Project # 1158 CCN: 08-00836
Audit Period: January 2002 - December 2007

Disallowed Transportation Rate 2004 - 2005
891000464B Fruitland Coal
San Juan 31-6

Month	Contract Rate	Unbundled Gathering %	Compr,Dehys MC %	Gathering Rate	C02 % WFS	ML C02 %	Royalty Bearing %	Disallowed Rate
	WFS 103 & h-PPCO 18674	(from Williams split)	From Manzanares wp	Phillips Contract 18674 (b*c*d)	Conoco 101/11223 PPCO 103/18674	From Tarrif	1-(f-g)	(Phillips Contract 18674 (e*h)
	$/mcf	%	%	$/mcf	%	%	%	$/mcf
a	b	c	d	e	f	g	h	i
Sep-04								
Dec-04								
Jan-05	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Jun-05								
Dec-05								

Prepared by: Julia Maddux Date: 5/8/2009
Reviewed by: _____ Date:____
Workpaper :

New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit of: ConocoPhillips
Project # 1158 CCN: 08-00836
Audit Period: January 2002 - December 2007

Manzanares Fuel
Agreement: 89100464B Fruitland Coal
San Juan 31-6

Test Month	Gathering Fuel % from Contract or Invoices %	Royalty Bearing % from Disallowed Trans Rate wp col (j) %	Compression, Dehydration MC Fuel % Manzanares Fuel From Cost wp) %	Non Allowed Fuel % (b*c*d) %
a	b	c	d	e
Sep-04				
Dec-04				
Jan-05				
Jun-05				
Dec-05				

(B)(4)

(B)(7)(e)

Prepared by: Julia Maddux Date: 5/8/09
Reviewed by:____Date:____
Work paper: Fuel

San Juan Coalseam

Residue Valuation Documentation

08:53:08
06/23/03

[redacted]

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

...MORE DATA FOLLOWS

06/028

Residue Mainline Transportation + Fuel

Coalseam (NW New Mexico) Leases

OCTOBER 2000

Hook	Pipeline-St-Source	Transp $	Fuel MMBtu	Adj $
			0	
			0	
		(B)(4)	1,554	(B)(4)
(B)(4)	(B)(4)		27,088	(B)(7)(e)
(B)(7)(e)	(B)(7)(e)	(B)(7)(e)	0	

Transwestern Pipeline Company

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns): (B)(4)

Invoice Date:	January 03, 2001
Net Due Date:	January 15, 2001
Inv ID:	208368
Beg Tran Date	End Tran Date
December 01, 2000	December 31, 2000

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account (B)(4)
Routing (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 Svc Cd Prop: Firm Transportation (B)(5)
Scheduled Vol (B)(7)(e)

Contact Name: Amy Mulligan
Contact Phone: 713-853-0439

Invoice Total Amount: (B)(4)
(B)(5)
(B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : THOREAU*										
ervation					56498/8931 (B)(4)			BLOOMFIELD COMPRESS	56709/68151	- THOREAU/SAN JUAN AR					01 - 31	

(B)(5)
(B)(7)(e)

ZONE SUBTOTAL (B)(4)
(B)(5)
INVOICE AMOUNT: (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ppers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate
te :

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

lable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns): (B)(4)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212209
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account : (B)(4)
Routing # (B)(5)
Dallas TX. 75284-0607 (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

/c Req K: 20835 **Svc Cd Prop:** Firm Transportation (B)(5)
Scheduled Volumes (B)(7)(e)

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

rge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
: Zone : SAN JUAN						*Delivery Zone : THOREAU*										
ervation					56498/89310 - BLOOMFIELD COMPRESS	56709/68151 - THOREAU/SAN JUAN AR			01 - 30		(B)(4) (B)(5) (B)(7)(e)					

ZONE SUBTOTAL (B)(4) (B)(5) (B)(7)(e)

INVOICE AMOUNT: (B)(4) (B)(5) (B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

lable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns): (B)(4) (B)(5) (B)(7)(e)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212223
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing # (B)(4)
Dallas TX. 7528 (B)(5) (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20835 **Svc Cd Prop:** Firm Transportation
Scheduled Volumes (B)(7)(e)

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : SAN JUAN						*Delivery Zone : THOREAU*										
Commodity			58648/105017 - SAN JUAN POOL			56709/68151 - THOREAU/SAN JUAN AR			01 - 30							

(B)(4)
(B)(5)
(B)(7)(e)

ZONE SUBTOTAL
INVOICE AMOUNT:

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

09473
0501

Payee: 007933047

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. : (B)(4)
Bill Pty (Duns): (B)(5)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212225
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing (B)(4)
Dallas TX. 75284-0607 (B)(5)
(B)(7)(c)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

: Req K: 20748 **Svc Cd Prop:** Firm Transportation (B)(7)(e)
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

ge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						*Delivery Zone : E. THOREAU*										
nodity			56709/68151		THOREAU/SAN JUAN ARE	56943/12585		VALERO WARD	02 - 03							
										ZC						
eipt Zone : THOREAU						*Delivery Zone : W. THOREAU*										
nodity			56709/68151		THOREAU/SAN JUAN ARE	10487/208		TOCAL NEEDLES	01 - 30							
										ZC						
										INVO						

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

's may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

Payee: 007933047

Billable Party: CONOCO, INC
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns): (B)(4) (B)(5) (B)(7)(e)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212224
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account
Routing (B)(4)
Dallas TX. 75284-0607 (B)(5) (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

Svc Req K: 20747 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Rate Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						Delivery Zone : E. THOREAU										
Commodity			56709/68151		THOREAU/SAN JUAN ARE	56943/12585		VALERO WARD	02 - 03							[redacted]
															Z	
Receipt Zone : THOREAU						Delivery Zone : W. THOREAU										
Commodity			56709/68151		THOREAU/SAN JUAN ARE	10487/208		SOCAL NEEDLES	01 - 30							
															Z	
															INVC	

(B)(4) (B)(7)(e)

(B)(4) (B)(5) (B)(7)(e)

[redacted]

Transwestern Pipeline Company
Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

[redacted] (B)(4) (B)(5) (B)(7)(e)

Payee: 007933047

lable Party: CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. : [redacted]
Bill Pty (Duns): (B)(4)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212213
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account # [redacted]
Routing # [redacted] (B)(4)
Dallas TX. 75284-0607 (B)(5) (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

rc Req K: 20747 Svc Cd Prop: Firm Transportation (B)(5)
Scheduled Volume: (B)(7)(e)
Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

rm Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
t Zone : THOREAU						*Delivery Zone : W. THOREAU*										
ervation					56709/68151 - THOREAU/SAN JUAN ARE	10487/208 - SOCAL NEEDLES			01 - 30		[redacted]					

(B)(4)
(B)(5)
(B)(7)(e)

ZONE SUBTOTAL [redacted]

INVOICE AMOUNT: [redacted]

[redacted]

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

ers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Transwestern Pipeline Compan

Market Services, EB-4106
P.O Box 1188
Houston, Texas 77251-1188

[redacted] (B)(4) (B)(5) (B)(7)(e)

able Party: CONOCO, INC.
ttn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. : [redacted]
Bill Pty (Duns): [redacted] (B)(4) (B)(5) (B)(7)(e)

Invoice Date:	May 02, 2001
Net Due Date:	May 14, 2001
Inv ID:	212215
Beg Tran Date	End Tran Date
April 01, 2001	April 30, 2001

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Bank of America
Account [redacted]
Routing [redacted] (B)(4) (B)(5) (B)(7)(e)
Dallas TX. 75284-0607

Remittance Address:
Transwestern Pipeline Co.
P.O Box 840607
Dallas TX. 75284-0607

c Req K: 20748 **Svc Cd Prop:** Firm Transportation
Scheduled Volume: [redacted] (B)(5) (B)(7)(e)

Contact Name: Tracy Minter
Contact Phone: 713-853-7309

Invoice Total Amount: [redacted] (B)(4) (B)(5) (B)(7)(e)

rg Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Zone : THOREAU						*Delivery Zone : W. THOREAU*										
rvation					56709/68151 - THOREAU/SAN JUAN ARE	[redacted] (B)(4) (B)(5) (B)(7)(e)		10487/208 - SOCAL NEEDLES	01 - 30		[redacted]					

ZONE SUBTOTAL [redacted] (B)(4) (B)(5) (B)(7)(e)

INVOICE AMOUNT: [redacted] (B)(4) (B)(5) (B)(7)(e)

[redacted] (B)(4) (B)(5) (B)(7)(e)

rs may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

P.O Box 1188
H ston, Texas 77251-1188

Payee: 007933047

... CONOCO, INC.
Attn: LISA BARRERA

600 NORTH DAIRY ASHFORD, CH1081

HOUSTON, TX 770796651

Acct No. :
Bill Pty (Duns): (B)(4) (B)(5) (B)(7)(e)

Invoice Date:	June 03, 2002
Net Due Date:	June 13, 2002 Wire
Inv ID:	221651
Beg Tran Date	End Tran Date
May 01, 2002	May 31, 2002

PLEASE REFERENCE THE INVOICE NO. ON YOUR:

EFT Addr
Citibank NA
Account (B)(4)
Routing (B)(5)
New York, NY (B)(7)(e)

Remittance Address:
Transwestern Pipeline Co.
P.O Box 203149
Houston, TX 77216-3149

Svc Req K: 27566 Svc Cd Prop: Firm Transportation
Scheduled Volumes

Contact Name: Randy Bryan
Contact Phone: 713-853-0438

Invoice Total Amount: (B)(4) (B)(5) (B)(7)(e)

Charge Type	Repl Rel Cd	Acct Adj Mthd	Rec Loc Prop (POI)	Rec Loc	Location Name	Del Loc Prop (POI)	Del Loc	Location Name	Beg Tran Date	End Tran Date	Unit Price Base	Sur.	Disc.	Net	Qty	Amount Due
Receipt Zone : SAN JUAN						*Delivery Zone : W. THOREAU*										
modity			58648/105017		- SAN JUAN POOL	10487/208		- SOCAL NEEDLES	01 - 31		[redacted]					

(B)(4)
(B)(5)
(B)(7)(e)

Z
INVC

[redacted]

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

hippers may voluntarily choose to contribute to GRI. All contribution payments must be clearly and specifically marked as "GRI contributions" and the GRI project(s) or project area(s) to be funded must be indicate

Note :

 DRAFT

Sell Statement #: TEMP_22179 2002-08-08 8:08 AM **Accounting Period:** Aug-2002 **Billing Period:** Jul-2002

Bill To: Aquila Dallas Marketing, L.P.
2711 North Haskell Ave, Suite 2050
Dallas, TX 75204

Remit To: Conoco Inc.
JP Morgan Chase & Company
ABA # (B)(4)
Acct # (B)(5)
New York, NY 10005-1401 (B)(7)(e)

Conoco Inc.
Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Tel: (214) 827-9464 **Fax:** (214) 828-2709 **Tel:** (281) 293-5838 **Fax:** (281) 293-3940

Contact: Carolyn Shipman **Contact:** Harriet E Patrick **Payment Method:** Wire

Vendor Inv #: **Vendor Inv Date:** **Terms:** NETOUT - 25th of the month

Sell	Delivery Date Start	End	Facility	Location	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
	Delivery Period: Apr-2001			**Contract:** 15368 - term only		**Deal:**					
1	01-Apr	30-Apr	WFS	310K-KUTZ POOL-310K-KUTZ POOL	Com (B)(4)	0	MMBtu				
	Delivery Period: Apr-2001			**Contract:** 15368 - term (B)(5) (B)(7)(e)		**Deal:**					
2	09-Apr	09-Apr	WFS	101-MILAGRO POOL-101-MILAGRO POOL	Commodity	7,367	MMBtu				
3	10-Apr	10-Apr			Reverse Item 73 of Stmt R04019194	-7,367	MMBtu				

(B)(4)
(B)(5)
(B)(7)(e)

Sell Pre-tax Sub-total	
Sell Tax Sub-total	
Pre-tax Sub-total:	(B)(4)
Tax Sub-total:	(B)(5)
Statement Total:	(B)(7)(e)
Currency:	
Due Date:	
Statement Date:	

To: Brenda Will
661-4057

New Mexico Federal Audit
July 2002 Production
Sales of Residue Processed at San Juan Plant

(B)(4)
(B)(7)(e)

Processed at San Juan													
(B)(4) (B)(7)(e)	11885	17966	51005	(B)(4) (B)(7)(e)	15300	14622	51005	15586	19785	**99471**	15581	16758	17073
	14206	18300	**99505**	17966	16758	50524		**99184**	**99433**	**99433**	15586	17268	
	14622		**99177**		17881			**99443**	**99422**		16873		
	14943				17966						17268		
	15282				18300						17333		
	15333				**99422**						17482		
	15368										50524		
	15477										51131		
	15617										**99106**		
	16709												
	16908												
	16948												
	17119												
	17475												
	17881												
	17968												
	18133												
	18186												
	50394												
	50524												
	99421												
	99481												
	99586												
	99639												
	99536												

New Mexico Federal Audit
July 2002 Production
Sales of Residue Processed at San Juan Plant
(B)(7)(e)

(B)(4)
(B)(7)(e)

	18292	16995	51131	17006
	99456			17074
	99457			18127
	99567			97[illegible]

(B)(4)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

New Mexico Federal Audit
October 2000 Production
Sales of Residue Processed at San Juan Plant

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(VALERO)

Processed at San Juan						Oasis
(B)(4) (B)(7)(e)	11885	99404	15979	15938		99177
	12198	99177	99404	16709		
	14206			17180		
	14304			17482		
	14622					
	15211					
	15333					
	15368					
	15477					
	15617					
	15938					
	15979					
	16758					
	16872					
	16948					
	17119					
	17217					
	17358					
	17363					
	17475					
	50272					
	50775					
	50832					
	50927					
	99481					
	99421					

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

CROSS RE

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200010	200010	0	0								
			200010	200010	6,446,748	6,446,748								

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Vols Used As Fuel
Weight Avg Base Price
Transp/Fuel Value
Transp/Fuel Adj
Total Vols Sold + Vols Used As Fuel
W/A Transp/Fuel Price

(B)(4)
(B)(7)(e)

Value Adjustment
nual Loaded Transp Price
l Sales + Value Adjustmer
Weight Avg Base Price
nsp/Fuel + Manual Transp
Determined Price

(B)(4)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

5/23/2003 11:27 AM

(B)(4)
(B)(5)
(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200010	200010	174,671	174,671								
			200010	200010	105,701	105,701								
			200010	200010	225,572	225,572								
			200010	200010	237,034	237,034								
			200010	200010	166,096	166,096								
			200010	200010	2,517	2,517								
			200010	200010	34,843	34,843								
			200010	200010	391,496	391,496								
			200010	200010	170,925	170,925								
			200010	200010	182,414	182,414								
			200010	200010	193,792	193,792								
			200010	200010	100,595	100,595								
			200010	200010	100,591	100,591								
			200010	200010	193,757	193,757								
			200010	200010	504,676	504,676								
			200010	200010	303,425	303,425								
			200010	200010	835,802	835,802								
			200010	200010	151,722	151,722								
			200010	200010	22,101	22,101								
			200010	200010	266,743	266,743								
			200010	200010	102,265	102,265								
			200010	200010	85,434	85,434								
			200010	200010	6,988	6,988								
			200010	200010	325,407	325,407								
			200010	200010	30,567	30,567								
			200010	200010	549,975	549,975								
			200010	200010	38,131	38,131								
			200010	200010	131,532	131,532								
			200010	200010	4,030	4,030								
			200010	200010	361,986	361,986								
			200010	200010	165,416	165,416								
			200010	200010	52,131	52,131								
			200010	200010	25,458	25,458								
			200010	200010	166,762	166,762								
			200010	200010	118,030	118,030								

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200010	200010	511,858	511,858								
			200010	200010	265,068	265,068								
			200010	200010	995,209	995,209								
			200010	200010	933,853	933,853								
			200010	200010	288,931	288,931								
			200010	200010	16,424	16,424								
			200010	200010	9,804	9,804								
			200010	200010	26,860	26,860								
			200010	200010	140,247	140,247								
			200010	200010	244	244								
			200010	200010	134,716	134,716								
	?		200010	200010	39,681	0								
	?		200010	200010	0	0								
			200010	200010	0	0								
			200010	200010	87,193	87,193								
			200010	200010	11,447	11,447								
					9,990,120	9,950,439								

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

	Vols Used As Fuel
	Weight Avg Base Price
	Transp/Fuel Value
	Transp/Fuel [illegible]
	Total Vols Sold + Vols Used As Fuel
	W/A Transp/Fuel Price

(B)(4)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(7)(e)

	Value Adjustment
	Manual Loaded Transp Price
	Total Sales + Value Adjustment
	Weight Avg Base Price
	W/A Transp/Fuel + Manual Transp Price
	Determined Price

(B)(4)
(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200010	200010	0	0								
			200010	200010	0	0								
			200010	200010	7,907	7,907								
			200010	200010	17,781	17,781								
			200010	200010	0	0								
			200010	200010	61,424	61,424								
					87,112	87,112								

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Vols Used As Fuel	
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

(B)(4)
(B)(7)(e)

Value Adjustment	
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

(B)(4)
(B)(7)(e)

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4)			200010	200010	0	0								
(B)(7)(e)			200010	200010	65,398	65,398								
	(B)(4)	(B)(4)	200010	200010	10,000	10,000						(B)(4)		
	(B)(7)(e)	(B)(7)(e)			75,398	75,398						(B)(7)(e)		

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	(B)(5)
Transp/Fuel Value	(B)(7)(e)
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	(B)(7)(e)
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
November 2000 Production
Sales of Residue Processed at San Juan Plant

(B)(4)
(B)(7)(e)

Processed at San Juan				
(B)(4)				
(B)(7)(e)	11885	99177	15109	15368
	12198		15979	15938
	14206		16709	17180
	14304			50503
	14622			
	15368			
	14577			
	15109			
	15617			
	15938			
	15979			
	16709			
	16948			
	17048			
	17119			
	17180			
	17217			
	17358			
	17475			
	50394			
	50775			
	50832			
	50927			
	51066			
	51263			
	99481			
	99421			

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		200011	200011	0	0	(B)(4) (B)(7)(e)							
			(B)(4) (B)(7)(e) 011	200011	37,500	37,500								
					37,500	37,500								

Vols Used As Fuel	(B)(4) (B)(7)(e)
Weight Avg Base Price	
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4) (B)(7)(e)
Manual Loaded Transp Price	
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
December 2000 Production
Sales of Residue Processed at San Juan Plant

(B)(4)
(B)(7)(e)

Processed at San Juan	El Paso	
(B)(4) (B)(7)(e)	11885	(B)(4) (B)(7)(e)
	12198	
	14206	
	14304	
	14622	
	15109	
	15282	
	15368	
	15477	
	15617	
	15938	
	15979	
	16709	
	16948	
	17048	
	17180	
	17217	
	17358	
	17363	
	17475	
	17482	
	50394	
	50775	
	50927	
	51066	
	51263	
	99421	

CROSS REFERENCE BETWEEN HOOK CONTRACT AND ASSOCIATED SALES CONTRACTS

MKTG HOOK	DEPEND HOOK	CONTR NO.	PROD DATE	ADJ DATE	VOL REC	VOL SOLD	BASE PRICE	TRANS - ACCTG	TRANS - MAINLINE	FUEL - ACCTG	FUEL - MAINLINE	TOTAL FUEL AND TRANS	TRANS/FUEL VALUE	TOTAL VALUE
			200012	200012	11,038	11,038								
					11,038	11,038								

(B)(4)
(B)(7)(e)

Vols Used As Fuel	(B)(4)
Weight Avg Base Price	(B)(7)(e)
Transp/Fuel Value	
Transp/Fuel Adj	
Total Vols Sold + Vols Used As Fuel	
W/A Transp/Fuel Price	

Value Adjustment	(B)(4)
Manual Loaded Transp Price	(B)(7)(e)
Total Sales + Value Adjustment	
Weight Avg Base Price	
W/A Transp/Fuel + Manual Transp Price	
Determined Price	

New Mexico Federal Audit
June 2002 Production
Sales of Coalseam Gas Processed at Milagro Plant

(B)(4)
(B)(7)(e)

Processed at Milagro	El Paso	TransWestern		
		(B)(4)		
15333	(See Contract 99200 for detail)	14622	27566	12855
15368		15368	90255	14206
16623		15586		15211
50524		15836		
99291		17475		
99368		18185		
		18186		
		99290		

(B)(7)(e)

***Bolded contracts represents transfers to another pool.

New Mexico Federal Audit
July 2002 Production
Sales of Coalseam Gas Processed at Milagro Plant

(B)(4)
(B)(7)(e)

Processed at Milagro	El Paso	TransWestern		
			(B)(4)	
15333	(See Contract 99200	14622	(B)(7)(e)	12855
15368	for detail)	15368	99255	17482
99291		15586		18133
99368		15836		50775
		17475		
		18185		
		99290		

***Bolded contracts represents transfers to another pool.

Cont 1219

AMENDMENT TO THE
GAS SALES AND PURCHASE AGREEMENT
BETWEEN
CONOCO INC., SELLER
AND
COOK INLET ENERGY SUPPLY, BUYER
CONOCO CONTRACT # 12198

This Amendment is entered into this 1st day of December, 1993, between Conoco Inc. P.O. Box 2197, Houston, Texas 77252 (SELLER), and Cook Inlet Energy Supply (BUYER), collectively referred to as "the Parties".

The Parties represent as follows:

SELLER and BUYER entered into a Gas Sales and Purchase Agreement dated June 1, 1992 (Agreement) for the sale and purchase of natural gas.

SELLER and BUYER wish to amend the Gas Sales and Purchase Agreement dated June 1, 1992, as provided in the Amendment.

The Parties agree as follows:

For and in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged,

1. Section 10 of the Agreement is amended by replacing the first paragraph as follows: "BUYER agrees to make payment to SELLER the later of the 25th of the month or ten (10) days from date of invoice by wire transfer to:

   (B)(4)
   Morgan Guaranty Trust Company
   New York, N.Y. (B)(5)
   (B)(7)(e)

   Reference: Cook Inlet Energy Supply

   for all gas delivered during the preceding month.

2. Except as expressly amended, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of the date first appearing above.

SELLER:

CONOCO INC.

BY: T. J. Doherty

T. J. Doherty

TITLE: Coordinator, Gas Sales

DATE: October 29, 1993

BUYER:

COOK INLET ENERGY SUPPLY

BY:

(B)(4)

(B)(5)

(B)(7)(e)

TITLE: Executive Vice President

DATE: November 16, 1993

12198
30147
50288

COOK INLET
ENERGY SUPPLY

NG & GP 3/19/99 GOLD SYSTEM

ATTN: CUSTOMERS, PROVIDERS, AND TRADING PARTIES

EFFECTIVE DATE: ***January 1, 1999***

The mailbox for after-hour emergencies has changed as indicated below:

Team	Mailbox	Message Center Name/Listing
West Coast	200	CIES West Gas Control
East Coast	201	CIES East Gas Control
Mid-Continent	202	CIES Mid-Continent Gas Control
Canada/PNW	203	CIES Canada Gas Control
Power	204	CIES Power Scheduling

To access the Mailboxes, dial our main number (310) 556-8956. When you hear the message greeting, dial the extension assigned to the region that you are attempting to contact (*e.g. 200 for West Coast, 201 for East/Gulf Coast, etc.*).

Mailbox 335 will be active for general/non-scheduling related emergency messages.

All other company voicemail boxes remain unchanged. If you have any questions, please feel free to call Stephanie Lara or Angela Jones at (310) 556-8956.

Thank you for your support.

Cook Inlet Energy Supply
Administration Department

Eff. 5/97

12198-185

COOK INLET
ENERGY SUPPLY

$US Purchase Confirmation Summary

DATE: 8/1/00

		Upstream	Downstream
PIPELINE:	EPNG97ZA - El Paso Natural Gas		
RECEIPT POINT:	Blanco 97ZA		97ZA
VOLUME (MMBTU/D):	10000		
PRICE ($US/MMBTU):	(B)(4)		
DELIVERY PERIOD:	11/1/00 - 10/31/01		
REFERENCE:	UP-88492		
SERVICE TYPE:	Term		

SELLER	**AUTHORIZED REPRESENTATIVE**
Conoco Inc. Duns # C.Johnson	

BUYER	**AUTHORIZED REPRESENTATIVE**
Cook Inlet Energy Supply Ryan Duncan	Ryan Duncan

COMMENTS:
#5050 MUST LEAVE NOM CY1 & CY2. Primary delivery at EP Blanco, mutual agreement to move to TW blanco.

BASE CONTRACT #

Please contact us immediately if you are not in agreement with the above terms.
Please forward the signed confirmation summary via fax to:

Cook Inlet Energy Supply

Please Note New Fax Number!

10100 SANTA MONICA BLVD., 25TH FLOOR, LOS ANGELES, CALIFORNIA 90067 (310) 556-8956 (310) 557-1176

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, CH 1081
Houston, TX 77252-2197

Bill To:	Remit To:	
Cook Inlet Energy Supply L.L.C.	ConocoPhillips Company	
Attn: Gas Invoices	Chase Manhattan Bank, N.A.	
10100 Santa Monica	Acct:	
Suite 2525	ABA: (B)(4) (B)(5)	
Los Angeles, CA 90067	New York, NY 10005-1401 (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (310) 556-8956	Telephone: (281) 293-5838	
Fax: (310) 556-8441	Fax: (281) 293-3940	

Statement Number: R04019111
Billing Period: Apr-2001
Statement Date: May 8, 2001

Due Date: May 25, 2001
Payment Method: Wire
Terms: Later of the 25th of the month or 10 days from date of invoice

(B)(7)(e)

	Delivery Date Start	End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
Sell											
Delivery Period:	Apr-2001			**Contract:** 12198					**Deal:** 1219		
1	01-Apr	30-Apr	EPNG	BLANCO POOL-BLANCO POOL	Commodity	477,538	MMBtu				
Delivery Period:	Apr-2001			**Contract:** 12198					**Deal:** 1219		
2	10-Apr	10-Apr	EPNG	9H3C-BLANCO-9H3C-BLANC POOL	Commodity	(B)(4) 667	MMBtu				
3	28-Apr	30-Apr			Commodity	(B)(5) 6	MMBtu				
Delivery Period:	Apr-2001			**Contract:** 12198		(B)(7)(e)			**Deal:** 1219		
4	24-Apr	24-Apr	Transco	6559-ELIZABETHTOWN DELIV PTS	Commodity	1,333	MMBtu				
5	26-Apr	26-Apr			Commodity	1,333	MMBtu				
6	27-Apr	27-Apr			Commodity	1,333	MMBtu				

ConocoPhillips Company

Attn: Gas Marketing Accounting
P.O. Box 2197, HU 1066
Houston, TX 77252-2197

Bill To:	Remit To:	
Arizona Public Service Company	ConocoPhillips Company	
400 N 5th St, Station 9842	JP Morgan Chase & Company	
Phoenix, AZ 85004	ABA # [redacted]	
	Acct # [redacted] (B)(4)	
	New York, NY 10005-1401 (B)(5) (B)(7)(e)	
Contact:	Contact: Harriet E Patrick	
Telephone: (602) 250-3914	Telephone: (281) 293-5838	
Fax: (602) 250-4212	Fax: (281) 293-3940	

Statement Number:	R050213318
Billing Period:	May-2002
Statement Date:	**June 10, 2002**
Due Date:	June 25, 2002
Payment Method:	Wire
Terms:	NETOUT - 25th of month following delivery

Sell

Delivery Period: May-2002 **Contract:** 16948 - GISB **Deal:** 169

	Delivery Date Start	Delivery Date End	Pipeline	Point	Description	Quantity	Units	Unit Price	Per Unit	Extended	Invoice
49	22-May	22-May	EPNG	BLANCO POOL-BLANCO POOL	Commodity	3,983	MMBtu	[redacted]			
50	28-May	28-May			Commodity	13,092	MMBtu				
51	29-May	29-May			Commodity	6,714	MMBtu				
52	30-May	30-May			Commodity	8,252	MMBtu				
53	31-May	31-May			Commodity	23,407	MMBtu				

(B)(4) (B)(5) (B)(7)(e)

Statement Total:

A4901

State of California

SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the annexed transcript has been compared with the corporate record on file in this office, of which it purports to be a copy, and that same is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this

APRIL 8, 1997

Secretary of State

004661

14622

Debra L. Lemons
Staff Analyst
Natural Gas & Gas Products

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(281) 293-1082
Fax: (281) 293-1720

NG & G
7/22/99
SYS

June 30, 1999

(B)(4)
(B)(5)
(B)(7)(e)

PG&E Energy Trading –Gas Corporation
P.O Box 4791
Houston, TX 77210-4791

Attn: Contract Administration

RE: Base Contract for Sale and Purchase of Natural Gas dated July 1, 1995

Dear Contract Administration:

Pursuant to the subject Agreement, Conoco Inc. and PG&E Energy Trading – Gas Corporation hereby agree to add the following provision effective July 1, 1999:

Two Way Year 2000 Warranty

A. The parties to this Agreement warrant that their performance will not be adversely affected by the improper processing of date related data by their computer systems, software or other equipment. Further, each party agrees to obtain a similar warranty from their subcontractors and suppliers whose performance is material to that party's contractual obligations. The parties will use reasonable commercial efforts to cooperate and share information to minimize the impact of any Year 2000 Problem on performance of this Agreement. Further, each party will inform the other party of any possible obstacle to compliance with this article and the steps being taken to avoid or overcome the obstacle.

B. If a party complies with Section A, then it will not be liable for a breach of this Agreement to the extent such breach arises out of a Year 2000 problem by the party's suppliers/subcontractors or arises out of circumstances beyond the party's control (e.g. a failure on the party of a governmental entity).

C. A "Year 2000 Problem" means a failure to correctly perform, process and handle date related data which adversely impacts the use and/or operation of software, equipment or a computer system.

All other provisions outlined in the Agreement shall remain in effect.

PG&E ENERGY TRADING – GAS CORPORATION
Base Contract for Sale and Purchase of Natural Gas dated July 1, 1995

Please execute both originals and return one to Conoco Inc., P.O. Box 2197, Room CH-1081, Houston, TX 77252.

If you have any questions or concerns, I can be reached at the above number.

Sincerely,

Debra L. Lemons

Debra L. Lemons

Enclosures

cc: Contract #14622

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 1999.

PG&E ENERGY TRADING – GAS CORPORATION

BY: _____

TITLE: _____

DATE: _____

AGREED TO AND ACCEPTED THIS 30th DAY OF June, 1999.

CONOCO INC.

BY: Carole W. Poulter

TITLE: Carole W. Poulter - Director, Gas Marketing
~~West Commercial Unit~~

DATE: 6/30/99

Maria E. Hendrix
Senior Analyst
Natural Gas & Gas Products

Conoco Inc.
P.O. Box 2197
Houston, TX 77252
(281) 293-5359
Fax: (281) 293-1720

NG & GP
3/22/00
ABYS

March 22, 2000

PG&E Energy Trading Corporation
10375 Richmond Ave. Suite 300
Houston, Texas 77042

Attn: Ms Ellen Klecka

RE: Amendment to Base Contract for Sale and Purchase of Natural Gas, dated July 1, 1995
Conoco Contract No. 14622

Gentlemen:

Conoco Inc. desires to add the following to the end of Article X, Price of the Contract.

> Such price will be inclusive of reimbursement for production, severance and all other taxes attributable to the gas prior to its delivery at the Delivery Point(s).

The effective date of this amendment will be April 1, 2000.

Please execute below and return one original for our files. If you have any questions, please contact Maria Hendrix at 281-293-5359.

PG&E Energy Trading- Gas Corporation

By: _____

Date: _____

Conoco Inc.

By: Peter D. Inchausti

Date: March 22, 2000

SCHEDULE 1 TO COLLATERAL ANNEX

IRREVOCABLE TRANSFERABLE STANDBY LETTER OF CREDIT FORMAT
DATE OF ISSUANCE: _____

[Address]

Re: Credit No. _____

We hereby establish our Irrevocable Transferable Standby Letter of Credit in your favor for the account of [Pledging Party], for the aggregate amount not exceeding _____ United States Dollars ($_____), available to you at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of one or more of the following statements, dated and signed by [Secured Party]:

Either:

(a) An "Early Termination Date" (as defined in the Base Contract for Sale and Purchase of Natural Gas dated as of July 1, 1995 between Conoco Inc. and PG&E Energy Trading – Gas Corporation, as successor to Energy Source, Inc., as the same may be amended (the "Master Agreement")) has been designated as a result of an event of default with respect to Pledging Party under the Master Agreement, Pledging Party has failed to pay the amount due, and no event of default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire available balance of the Letter of Credit"; and/or

(b) Pledging Party has failed to make all payments due and owing to the beneficiary of this Letter of Credit pursuant to the requirements of the Master Agreement (as defined in the Master Agreement). Wherefore, the undersigned does hereby demand payment of $_____."

The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through the Issuing Bank referencing this Letter of Credit No. ____. Partial and multiple drawings are permitted hereunder.

We hereby agree with you that documents drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, including but not limited to Articles 13(b) and 17 of the UCP, in which case the terms of this Letter of Credit shall govern.

With respect to Article 13(b) of the UCP, the Issuing Bank shall have a reasonable amount of time, not to exceed three (3) banking days following the date of its receipt of documents from the beneficiary, to examine the documents and determine whether to take up or refuse the documents and to inform the beneficiary accordingly.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date 30 calendar days after the place for presentation reopens for business.

This Letter of Credit is transferable, and we hereby consent to such transfer, but otherwise may not be amended, changed or modified without the express written consent of the beneficiary, the Issuing Bank and Pledging Party.

GUARANTEE

GUARANTEE dated as of May 1, 2002 by **PG&E National Energy Group, Inc.**, a Delaware corporation (the "Guarantor"), in favor of Conoco Inc. (hereinafter called the "Guaranteed Party").

WHEREAS, Guaranteed Party and **PG&E Energy Trading – Gas Corporation**, a California corporation (the "Affiliate"), an affiliate of Guarantor, have entered into, or may enter into, one or more agreements for physical natural gas transactions (collectively, the "Agreements").

NOW, THEREFORE, in consideration of Guaranteed Party entering into the Agreements with Affiliate, Guarantor agrees as follows:

1. Guarantee. Subject to the terms herein, Guarantor unconditionally guarantees to the Guaranteed Party, its successors and assigns, the prompt payment when due (after giving effect to any applicable notice requirement or grace period) of all amounts payable by Affiliate under the Agreements and any amendments thereto (collectively, the "Obligations"). This is a guarantee of payment and not of collection. If Affiliate fails to pay any Obligation, Guarantor will pay such Obligation directly for Guaranteed Party's benefit promptly upon Guaranteed Party's demand therefor in accordance with the provisions hereof.

2. Extent of Liability & Term. Guarantor's liability for Obligations or other costs and expenses under this Guarantee is limited in the aggregate to US$10,000,000 (the "Guarantee Cap"). Guarantor will not be obligated to monitor the amount of Affiliate's Obligations to Guaranteed Party, and Guaranteed Party will bear the risk that the aggregate amount of the Obligations exceeds the Guarantee Cap. Except as the same comprise Obligations under the terms of the Agreements, Guarantor shall not be liable hereunder for special, consequential, exemplary, tort or other damages, costs or attorneys' fees (other than reasonable costs and reasonable attorneys' fees incurred by Guaranteed Party in enforcing this Guarantee). This Guarantee shall become effective as of the date hereof and shall remain in full force and effect until terminated by written notice of termination provided to Guaranteed Party by Guarantor. Such notice may be given by facsimile and shall be deemed effective as of noon, Eastern Time, on the fifth (5th) business day following receipt of notice by Guaranteed Party. Except as set forth in Section 8 below, this Guarantee may be terminated only with respect to Obligations arising from transactions entered into under the Agreements after the termination date of the Guarantee, and shall continue in full force and effect with regard to all Obligations arising from transactions entered into under the Agreements prior to such termination date, and all extensions and renewals thereof entered into prior to the effective date of termination, until full payment of such Obligations to Guaranteed Party.

3. Nature of Guarantee. The Guarantor's obligations hereunder with respect to any Obligation shall not be affected by the existence, validity, enforceability, perfection, or extent of any collateral for such Obligations. The Guaranteed Party shall not be obligated to file any claim relating to the Obligations owing to it if Affiliate becomes subject to a bankruptcy, reorganization or similar proceeding and the failure of the Guaranteed Party to so file shall not affect Guarantor's obligations hereunder. If any payment to the Guaranteed Party with respect to any Obligations is rescinded or must

otherwise be returned for any reason whatsoever, the Guarantor shall remain liable hereunder with respect to such Obligations as if such payment had not been made. Guarantor reserves the right to assert defenses that Affiliate may have under the Agreements to payment of any Obligation other than defenses arising from the bankruptcy, insolvency, incapacity, liquidation or dissolution Affiliate.

4. Demands and Notice. If Affiliate fails to pay any Obligations, Guaranteed Party shall notify Affiliate in writing and demand that payment be made by Affiliate. At the same time, Guaranteed Party shall provide a copy of such notice to Guarantor at the address set forth below. If Affiliate's failure to pay continues for a period of five (5) business days after the date of Guaranteed Party's notice to Affiliate, and Guaranteed Party elects to exercise its rights under this Guarantee, Guaranteed Party shall make a written demand on Guarantor (a "Payment Demand"). A Payment Demand shall identify the Agreement under which demand is being made and identify the amount and the basis of the demand and shall contain a statement that Guaranteed Party is calling upon Guarantor under this Guarantee. A Payment Demand conforming to the foregoing requirements shall be sufficient notice to Guarantor to pay under this Guarantee. Notices under this Guarantee shall be deemed received if sent to the address specified below: (i) on the day received if sent by overnight express delivery, (ii) on the next business day if served by facsimile transmission when sender has machine confirmation that facsimile was transmitted to the correct fax number listed below, (iii) four business days after mailing if sent by certified, first class mail, return receipt requested. Any party may change its address to which notice is to be given hereunder by providing notice of same in accordance with this Section 4.

To Guarantor: PG&E National Energy Group, Inc.
7500 Old Georgetown Road
Bethesda, Maryland 20814
Attn: Chief Financial Officer
fax: 301.280.5700

To Affiliate: PG&E Energy Trading – Gas Corporation
7500 Old Georgetown Road
Bethesda, Maryland 20814
Attn: Senior Vice President
fax: 301.280.6601

To Guaranteed Party: Conoco Inc.
Suite CH 1081
600 North Dairy Ashford (77079-1175)
P. O. Box 2197
Houston, Texas 77252-2197
Attn: Manager Gas & Power Marketing
fax: 281.293.

5. Consents, Waivers and Renewals. The Guaranteed Party and Affiliate may mutually agree to modify the Agreements, extend the payment or otherwise modify the terms of payment of any of the Obligations, without in any way impairing or affecting this Guarantee. The Guaranteed Party may resort to Guarantor for payment of any of the Obligations, whether or not Guaranteed Party shall have resorted to any collateral security, or shall have proceeded against any other obligor principally or secondarily

obligated with respect to any of the Obligations. Guarantor hereby waives notice of acceptance of this Guarantee, and also presentment, protest and notice of protest or dishonor of any evidences of indebtedness hereby guaranteed.

6. Subrogation. Upon final payment of all the Obligations owing to the Guaranteed Party, Guarantor shall be subrogated to the rights of the Guaranteed Party against Affiliate, and the Guaranteed Party agrees to take at Guarantor's expense such steps as Guarantor may reasonably request to implement such subrogation.

7. Representations and Warranties. Guarantor hereby represents and warrants that (i) it is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) the execution, delivery and performance by Guarantor of this Guarantee are within its corporate powers, have been duly authorized by all necessary corporate action and do not violate Guarantor's charter or by-laws or any law, order or contractual restriction binding on Guarantor, and (iii) this Guarantee constitutes Guarantor's legal, valid and binding obligation, enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights in general and general principles of equity).

8. Substitute Credit Support. Notwithstanding anything to the contrary set forth herein, the following provisions shall apply:

a. At any time prior to the termination of Guarantor's obligations under this Guarantee, Guarantor may deliver or cause to be delivered to Guaranteed Party Substitute Credit Support with a liability limit at least equal to the limit set forth in Section 2 hereof, in substitution for this Guarantee.

b. Upon delivery of Substitute Credit Support, Guarantor shall be relieved of any liability under this Guarantee. Within ten (10) days of the receipt of such Substitute Credit Support, Guaranteed Party shall return to Guarantor this Guarantee together with any certificate or other documentation that may be required to effect the cancellation of this Guarantee.

c. For purposes of this Guarantee, Substitute Credit Support shall mean any of the following: (i) an irrevocable letter of credit issued to Guaranteed Party in a form satisfactory to Guaranteed Party in its reasonable judgment and from a bank or trust company whose unsecured senior long term debt is rated at least "A" by S&P and "A2" by Moody's or (ii) a guarantee in substantially the same form as this Guarantee issued by any affiliate of Guarantor acceptable to Guaranteed Party, whose agreement to such new guarantor shall not be unreasonably withheld, at such time as such new guarantor has obtained a credit rating on its senior unsecured long term debt of at least "BBB-" by S&P or "Baa3" by Moody's.

9. Miscellaneous. No provision of this Guarantee may be amended or waived except by a written instrument executed by Guarantor and Guaranteed Party. This Guarantee shall bind and benefit the successors and assigns of Guarantor and Guaranteed Party. This Guarantee shall not be deemed to benefit any person except Guaranteed Party and its successors and assigns. This Guarantee is not intended to benefit any holder of a collateral security interest in Guaranteed Party's rights under this

Guarantee. This Guarantee shall be construed in accordance with the laws of the State of New York, excluding its choice of law provisions.

PG&E National Energy Group, Inc.

By: Lyndell E. Maddox
Name: Lyndell E. Maddox
Title: President & COO

PURCHASE TRANSACTION CONFIRMATION
FOR IMMEDIATE DELIVERY

(B)(4)

(B)(4)

Date: (B)(4)
Transaction Confirmation No. (B)(4)
Transaction Date:

This Transaction Confirmation is subject to the Contract/Agreement between seller and buyer dated (B)(4)
The terms of this Transaction Confirmation are binding if not disputed in writing within 1 Business Day of receipt unless otherwise specified in the Contract/Agreement.

Seller:
Conoco Inc.
Natural Gas & Gas Products
P.O. Box 2197
Houston, TX 77252-2197

Attn: Carla Johnson
Phone:
Fax: 281-293-1720

Buyer:
(B)(4)

Pricing Terms:
(B)(4)

(B)(4)

Delivery Period: Begin: (B)(4)
End:

Delivery Point: (B)(4)

Performance Obligation and Contract Quantity:
(B)(4)

Special Conditions:

Comments:
(B)(4)

Seller: Conoco Inc.

By: Signature, if required by contract

Name/Title:

Date:

Buyer:

By:

Name/Title

Date:

(B)(4)

FileName: THIRD PARTY-WRITTEN

PG&E Energy Trading - Gas Corporation and any other company referenced herein which uses the PG&E name or logo are not the same company as Pacific Gas and Electric Company, the California utility. These companies are not regulated by the California Public Utilities Commission. Customers do not have to buy products from these companies in order to continue to receive ...

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Gas Daily

Tuesday, June 14, 2005

Heat wave powers NYMEX 32.8 cents higher

THE MARKET

The July NYMEX futures contract surged on Monday, gaining 32.8 cents to close at $7.26/MMBtu—the highest prompt-month settlement since early April—as a widespread heat wave prompted a new round of short-covering.

The contract started the day at its low of $7.02 and pressed to its high of $7.28 near the end of trading.

"We haven't even had our official start to summer," said an analyst, who noted that traders apparently view this week's steamy weather from the desert Southwest to the East Coast as a precursor to even hotter conditions. "We may be challenged to meet very strong

(continued on page 2)

Gulf gas producers ramp up in Arlene's wake

Producers began remanning their rigs and platforms in the Gulf of Mexico over the weekend after Tropical Storm Arlene brushed the eastern edge of the producing region, causing minimal damage but curtailing about 4% of the region's daily gas output.

Companies reported 416,200 Mcf/day still shut in as of midday Monday, representing 3.8% of the Gulf's 10.8 Bcf/day of total production, according to the New Orleans office of the Minerals Management Service.

MMS said 16 firms reported evacuating a total of 28 platforms and

(continued on page 5)

INGAA seeks more teamwork on pipeline siting

The INGAA Foundation on Monday urged greater coordination among the federal agencies involved in siting gas pipeline projects, saying the existing process has posed "a significant challenge" to building much-needed gas transportation capacity.

Meanwhile, Interstate Natural Gas Assn. of America President Donald Santa, Jr. said a pending energy bill expected to reach the Senate floor this week should give FERC more tools to force other agencies to comply with deadlines it sets during the pipeline review process.

In a study prepared for the INGAA Foundation by the

(continued on page 5)

CFTC charges former Oneok trader with fraud

The Commodity Futures Trading Commission has charged a former Oneok gas trader with fraud, saying he and others allegedly booked about $64,000 of NYMEX gas trades to an account outside of the company's purview.

The CFTC said Monday that it has filed, and simultaneously settled, an administrative enforcement action against Hugh Maddox, who "from approximately May 2003 through February 2004 engaged in a fraudulent scheme with others to skim profits from Oneok's trading of

(continued on page 6)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.850

Trans. date: 6/13
Flow date(s): 6/14

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.360	6.23-6.59	6.27-6.45	855	103
Waha	6.645	6.30-6.72	6.54-6.72	524	84
Transwestern, Permian Basin	—	— —	— —	—	0
East Texas-North Louisiana Area					
Carthage Hub	6.810	6.75-6.85	6.78-6.84	57	9
NGPL, Texok zone	6.885	6.86-6.92	6.87-6.90	195	25
Texas Eastern, ETX	6.785	6.75-6.80	6.77-6.80	14	3
Texas Gas, zone 1	7.060	7.01-7.12	7.03-7.09	92	18
East-Houston-Katy					
Houston Ship Channel	7.025	7.01-7.05	7.01-7.04	286	25
Katy	7.030	7.00-7.08	7.01-7.05	127	16
South-Corpus Christi					
Agua Dulce Hub	7.015	7.00-7.04	7.00-7.03	33	3
NGPL, STX	6.945	6.93-6.97	6.93-6.96	27	4
Tennessee, zone 0	7.000	6.96-7.15	6.96-7.05	259	45
Texas Eastern, STX	6.950	6.90-7.06	6.91-6.99	196	36
Transco, zone 1	7.020	7.01-7.08	7.01-7.04	9	4
Louisiana-Onshore South					
ANR, La.	7.025	7.00-7.10	7.00-7.05	206	36
Columbia Gulf, La.	7.090	7.03-7.15	7.06-7.12	134	21
Columbia Gulf, mainline	7.155	7.12-7.19	7.14-7.17	52	8
Florida Gas, zone 1	7.070	7.04-7.12	7.05-7.09	143	12
Florida Gas, zone 2	7.150	7.12-7.16	7.14-7.16	137	11
Florida Gas, zone 3	7.215	7.17-7.32	7.18-7.25	260	20
Henry Hub	7.080	7.01-7.19	7.03-7.13	791	102
NGPL, La.	6.995	6.99-7.00	6.99-7.00	3	2
Southern Natural, La.	7.110	6.98-7.17	7.06-7.16	184	30
Tennessee, La., 500 Leg	7.080	6.98-7.20	7.02-7.14	415	62
Tennessee, La., 800 Leg	7.035	6.97-7.12	7.00-7.07	281	35
Texas Eastern, WLA	7.075	7.04-7.10	7.06-7.09	125	19
Texas Eastern, ELA	7.080	7.00-7.16	7.04-7.12	338	54
Texas Gas, zone SL	7.070	7.02-7.14	7.04-7.10	115	19
Transco, zone 2	7.115	7.10-7.15	7.10-7.13	44	9
Transco, zone 3	7.180	7.10-7.28	7.13-7.23	746	102
Trunkline, WLA	7.025	7.02-7.04	7.02-7.03	23	5
Trunkline, ELA	7.025	7.00-7.05	7.01-7.04	80	16
Oklahoma					
ANR, Okla.	6.235	6.19-6.35	6.19-6.28	77	16
CenterPoint, East	6.790	6.75-6.85	6.78-6.82	40	8
NGPL, Midcontinent	6.270	6.18-6.40	6.21-6.33	338	72
Oneok, Okla.	6.400	6.35-6.50	6.36-6.44	39	5
Panhandle, Tx.-Okla.	6.225	6.18-6.50	6.18-6.31	307	49
Southern Star, Tx.-Okla.-Kan.	6.230	6.21-6.24	6.22-6.24	54	5
New Mexico-San Juan Basin					
El Paso, Bondad	5.755	5.73-5.80	5.74-5.77	48	13
El Paso, San Juan Basin	5.755	5.72-5.85	5.72-5.79	319	45

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Gas Daily

Wednesday, June 15, 2005

Wholesale gas market enjoying renewed liquidity

RANKINGS, page 6

The gas trading sector is enjoying an increasingly liquid market, with Gas Daily's latest ranking of North American marketers reflecting a notable increase in sales volumes from a year ago.

The 10 largest marketing companies, as measured by wholesale physical volumes, sold 85.3 Bcf/day in the first quarter of 2005, or 8.4% more than those same firms sold in the first quarter of 2004. The top 20 marketers reported selling 109.7 Bcf/day, up 6.6% from a year ago.

"For natural gas, we are returning to the pre-credit-crisis era and transactions are taking place farther out on the curve," said Louise

(continued on page 5)

Constellation beefs up its gas trading operation

Electricity giant Constellation Energy plans a major expansion of its gas trading operation by hiring several executives of a small Houston-based firm—including the former head of El Paso's gas marketing unit.

Constellation spokesman Larry McDonald said Tuesday that the Baltimore-based electric utility and power marketing company will appoint Epoch Energy President and CEO Tim Bourn as managing director of Constellation's new gas trading division to be headquartered in Houston. Epoch is a gas management services company with about a dozen employees.

(continued on page 4)

Domenici: Senate bill won't include OCS drilling

Senate Energy and Natural Resources Committee Chairman Pete Domenici said Tuesday that he won't pursue a provision in a comprehensive energy bill allowing states to petition the Interior Dept. to allow offshore gas and oil development along the Outer Continental Shelf.

Domenici, R-N.M., was seeking to reassure Florida senators who vociferously oppose efforts to lift federal bans for fear that allowing drilling offshore would damage that state's multi-billion-dollar tourism industry. But Domenici said he would not offer the same assurance that

(continued on page 3)

Steamy weather, sizzling NYMEX propel cash

THE MARKET

Sweltering heat in the East, pipeline maintenance in the Southwest and Monday's 32.8-cent NYMEX surge all combined to send Tuesday's spot prices roaring as much as 40 cents higher.

Continued curtailments on El Paso Natural Gas' San Juan Basin Crossover helped create additional demand in the Permian Basin, where cash prices tacked another 35 cents on to similar gains there Monday.

"People are buying from Permian instead of San Juan because they

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.080

Trans. date: 6/14
Flow date(s): 6/15

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.745	6.65-6.83	6.70-6.79	773	106
Waha	6.820	6.65-6.89	6.76-6.88	602	83
Transwestern, Permian Basin	5.990	5.90-6.05	5.95-6.03	25	5
East Texas-North Louisiana Area					
Carthage Hub	7.055	7.02-7.09	7.04-7.07	49	8
NGPL, Texok zone	7.090	7.04-7.18	7.05-7.13	231	36
Texas Eastern, ETX	7.065	7.05-7.07	7.06-7.07	15	3
Texas Gas, zone 1	7.355	7.27-7.45	7.31-7.40	59	11
East-Houston-Katy					
Houston Ship Channel	7.315	7.29-7.33	7.30-7.33	322	25
Katy	7.280	7.17-7.35	7.23-7.33	231	19
South-Corpus Christi					
Agua Dulce Hub	7.265	7.18-7.32	7.23-7.30	33	4
NGPL, STX	7.185	7.11-7.19	7.16-7.19	23	6
Tennessee, zone 0	7.225	7.10-7.29	7.18-7.27	255	43
Texas Eastern, STX	7.170	7.12-7.28	7.13-7.21	167	38
Transco, zone 1	7.230	7.20-7.25	7.22-7.24	48	11
Louisiana-Onshore South					
ANR, La.	7.295	7.25-7.34	7.27-7.32	146	33
Columbia Gulf, La.	7.320	7.28-7.40	7.29-7.35	115	24
Columbia Gulf, mainline	7.390	7.35-7.45	7.36-7.42	86	15
Florida Gas, zone 1	7.380	7.35-7.41	7.36-7.40	204	12
Florida Gas, zone 2	7.420	7.39-7.46	7.40-7.44	186	19
Florida Gas, zone 3	7.510	7.49-7.55	7.49-7.53	243	24
Henry Hub	7.320	7.26-7.38	7.29-7.35	740	100
NGPL, La.	7.230	7.20-7.28	7.21-7.25	8	3
Southern Natural, La.	7.370	7.31-7.42	7.34-7.40	237	39
Tennessee, La., 500 Leg	7.290	7.19-7.33	7.25-7.33	353	41
Tennessee, La., 800 Leg	7.295	7.23-7.35	7.26-7.33	272	42
Texas Eastern, WLA	7.300	7.23-7.35	7.27-7.33	123	20
Texas Eastern, ELA	7.330	7.28-7.42	7.29-7.37	372	54
Texas Gas, zone SL	7.310	7.27-7.34	7.29-7.33	57	10
Transco, zone 2	7.355	7.33-7.38	7.34-7.37	58	13
Transco, zone 3	7.445	7.39-7.50	7.42-7.47	722	111
Trunkline, WLA	7.265	7.22-7.30	7.24-7.29	41	9
Trunkline, ELA	7.270	7.23-7.31	7.25-7.29	94	20
Oklahoma					
ANR, Okla.	6.550	6.48-6.59	6.52-6.58	83	13
CenterPoint, East	6.980	6.88-7.04	6.94-7.02	75	20
NGPL, Midcontinent	6.565	6.49-6.59	6.54-6.59	236	39
Oneok, Okla.	6.680	6.57-6.74	6.64-6.72	83	13
Panhandle, Tx.-Okla.	6.570	6.48-6.60	6.54-6.60	284	56
Southern Star, Tx.-Okla.-Kan.	6.555	6.45-6.60	6.52-6.59	85	7
New Mexico-San Juan Basin					
El Paso, Bondad	5.880	5.81-5.92	5.85-5.91	22	4
El Paso, San Juan Basin	5.870	5.58-6.00	5.76-5.98	246	32

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Gas Daily

Thursday, June 16, 2005

FERC approves major El Paso pipeline expansion

An integrated plan by El Paso Natural Gas to combine new and existing facilities with a former crude oil pipeline and create 502,000 Mcf/day of new capacity received FERC's approval on Wednesday.

The Line 1903 project, first proposed in October (*GD 10/6*), is designed to provide El Paso with a new west-end crossover system, creating supply and market alternatives and greater operational flexibility for new and existing shippers.

The main element of the project is conversion of an 88-mile segment of a much larger former oil pipeline that El Paso bought in March 2000.

El Paso also plans to build 6.4 miles of 30-inch-diameter pipeline and

(continued on page 7)

Another Gulf Coast LNG terminal gets FERC nod

FERC gave its final approval Wednesday to ExxonMobil's proposed Vista del Sol liquefied natural gas terminal and related pipelines near Corpus Christi, Texas—the latest in a string of Gulf Coast LNG import facilities to receive the federal government's blessing.

But ExxonMobil spokesman Bob Davis said it's still not clear if the proposed $600 million, 1.1 Bcf/day facility will be built. He said the company is pursuing regulatory approval for three proposed LNG terminals in the Gulf region and plans to build no more than two of those.

In addition, Davis noted that Vista del Sol must secure several other

(continued on page 6)

Vectren ordered to issue $9.6 million in rebates

After nearly three years of investigating Vectren Energy Delivery of Ohio's relationship with its subsidiary, ProLiance Asset Management Services, the Public Utilities Commission of Ohio on Tuesday ordered the utility to issue $9.6 million in rebates plus 10% interest to its 310,000 gas customers in the state.

Vectren immediately said it would ask the PUC to reconsider its 3-2 decision. Company President Steve Bramlage said he was "very disappointed" with the order, which resulted from an audit of the utility's gas purchases between November 2000 and October 2002.

(continued on page 5)

July NYMEX bolts to $7.50; cash prices mixed

THE MARKET

The July NYMEX futures contract barreled higher on Wednesday, rising 21.3 cents to settle at $7.441/MMBtu amid "a ton of fund buying, strong crude pricing and the residual heat" across the eastern United States, a broker said. Since Monday, the contract has gained nearly 51 cents.

With one last day of near-record heat, and with buoyant oil prices settling above $55/barrel, the July gas contract pressed as high as $7.50 before pulling back to its intraday low of $7.34.

For fundamental guidance, many traders and analysts are eyeing

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.070

Trans. date: 6/15
Flow date(s): 6/16

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.700	6.67-6.89	6.67-6.76	840	114
Waha	6.800	6.45-7.00	6.66-6.94	638	71
Transwestern, Permian Basin	5.950	5.90-6.05	5.91-5.99	32	5
East Texas-North Louisiana Area					
Carthage Hub	7.065	7.04-7.08	7.05-7.08	32	5
NGPL, Texok zone	7.090	6.99-7.12	7.06-7.12	158	21
Texas Eastern, ETX	7.100	7.10 -7.10	7.10 -7.10	10	2
Texas Gas, zone 1	7.330	7.29 -7.39	7.30 -7.36	52	12
East-Houston-Katy					
Houston Ship Channel	7.400	7.33 -7.50	7.36 -7.44	392	31
Katy	7.375	7.35 -7.40	7.36 -7.39	321	26
South-Corpus Christi					
Agua Dulce Hub	7.295	7.24 -7.35	7.27 -7.32	167	12
NGPL, STX	7.155	7.14 -7.17	7.15 -7.16	21	6
Tennessee, zone 0	7.250	7.20 -7.29	7.23 -7.27	310	60
Texas Eastern, STX	7.190	7.14 -7.28	7.15 -7.23	85	20
Transco, zone 1	7.330	7.26 -7.34	7.31 -7.34	40	8
Louisiana-Onshore South					
ANR, La.	7.300	7.27 -7.35	7.28 -7.32	177	30
Columbia Gulf, La.	7.360	7.32 -7.43	7.33 -7.39	172	30
Columbia Gulf, mainline	7.405	7.34 -7.47	7.37 -7.44	80	15
Florida Gas, zone 1	7.445	7.41 -7.46	7.43 -7.46	186	11
Florida Gas, zone 2	7.425	7.41 -7.45	7.41 -7.44	97	13
Florida Gas, zone 3	7.550	7.48 -7.59	7.52 -7.58	356	34
Henry Hub	7.395	7.34 -7.50	7.35 -7.44	546	80
NGPL, La.	7.240	7.22 -7.28	7.22 -7.26	31	5
Southern Natural, La.	7.400	7.36 -7.44	7.38 -7.42	309	34
Tennessee, La., 500 Leg	7.300	7.26 -7.34	7.28 -7.32	371	46
Tennessee, La., 800 Leg	7.300	7.27 -7.34	7.28 -7.32	365	45
Texas Eastern, WLA	7.300	7.26 -7.32	7.28 -7.32	39	10
Texas Eastern, ELA	7.370	7.32 -7.40	7.35 -7.39	354	40
Texas Gas, zone SL	7.350	7.32 -7.37	7.34 -7.36	100	16
Transco, zone 2	7.395	7.36 -7.43	7.38 -7.41	77	17
Transco, zone 3	7.470	7.41 -7.54	7.44 -7.50	782	102
Trunkline, WLA	7.295	7.29 -7.31	7.29 -7.30	19	4
Trunkline, ELA	7.295	7.28 -7.32	7.28 -7.31	130	25
Oklahoma					
ANR, Okla.	6.530	6.51 -6.57	6.51 -6.55	30	5
CenterPoint, East	7.025	7.00 -7.06	7.01 -7.04	97	12
NGPL, Midcontinent	6.550	6.52 -6.59	6.53 -6.57	202	46
Oneok, Okla.	6.705	6.68 -6.72	6.69 -6.72	47	7
Panhandle, Tx.-Okla.	6.540	6.50 -6.62	6.51 -6.57	255	46
Southern Star, Tx.-Okla.-Kan.	6.570	6.54 -6.58	6.56 -6.58	5	2
New Mexico-San Juan Basin					
El Paso, Bondad	5.610	5.55 -5.65	5.58 -5.64	12	4
El Paso, San Juan Basin	5.635	5.52 -5.75	5.58 -5.69	310	40

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Gas Daily

Friday, June 17, 2005

Bodman, Kelly back LNG growth—with caveats

Liquefied natural gas imports are an attractive and necessary means of meeting growing gas demand in the United States, but only after several key hurdles are overcome, top government officials said Thursday.

Addressing a joint Center for LNG/U.S. Energy Assn. conference in Washington, D.C., Energy Secretary Samuel Bodman said the appeal of natural gas for U.S. energy consumers "seems to be something of a poison pill, in that our nation is threatening to grow overly dependent on this source of fuel ... Our demand is growing steadily, but not our ability to meet it."

Bodman noted that the average number of gas rigs in use in the

(continued on page 6)

N.J. threatens to sue Delaware over LNG project

While many East Coast politicians are aggressively fighting proposed liquefied natural gas import projects along their coastlines, New Jersey officials are taking the opposite approach.

The Garden State is threatening legal action against neighboring Delaware, which has been using regulatory maneuvers to block BP from building its proposed Crown Landing LNG terminal on the Delaware River. In addition, New Jersey plans to float between $50 million and $100 million in tax-exempt bonds to help ensure that the Crown Landing project proceeds.

(continued on page 5)

Analyst: Tight market to mean $8.50 gas in 2007

Energy and Environmental Analysis on Thursday issued its first U.S. gas price projection for 2007, and it's a bullish one—$8.50/MMBtu at Henry Hub.

Driving the consulting firm's forecast are expectations of prolonged tightness in the supply/demand balance and doubts that liquefied natural gas imports will be adequate to fill the gap within two years, EEA Director Kevin Petak told *Gas Daily*.

The Arlington, Va.-based firm kept its 2005 price prediction of $6.45/MMBtu unchanged and left its 2006 forecast of $7.50/MMBtu

(continued on page 4)

Topping out at $7.70, NYMEX gains 17.2 cents

THE MARKET

The July NYMEX futures contract raced toward the $8/MMBtu mark on Thursday, tacking on another 17.2 cents to settle at $7.613 and capping off a four-day, 68-cent gain.

Traders said the Energy Information Administration's weekly gas storage report was the primary motivator, as the 73-Bcf build for the week ending June 10 fell short of market expectations and created a wave of short-covering.

"The broader implication for natural gas with that small injection is that supplies, while robust, are maybe vulnerable to rapid consumption if

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.060

Trans. date: 6/16
Flow date(s): 6/17

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.750	6.69-6.90	6.70-6.80	756	98
Waha	6.870	6.62-6.91	6.80-6.91	550	66
Transwestern, Permian Basin	5.935	5.90-6.00	5.91-5.96	19	4
East Texas-North Louisiana Area					
Carthage Hub	7.090	7.06-7.13	7.07-7.11	49	7
NGPL, Texok zone	7.125	7.04-7.32	7.05-7.20	253	32
Texas Eastern, ETX	7.070	7.07 -7.07	7.07 -7.07	10	2
Texas Gas, zone 1	7.395	7.37 -7.43	7.38 -7.41	123	20
East-Houston-Katy					
Houston Ship Channel	7.435	7.37 -7.48	7.41 -7.46	166	12
Katy	7.410	7.38 -7.45	7.39 -7.43	214	14
South-Corpus Christi					
Agua Dulce Hub	7.305	7.27 -7.34	7.29 -7.32	260	16
NGPL, STX	7.185	7.16 -7.21	7.17 -7.20	46	8
Tennessee, zone 0	7.270	7.23 -7.37	7.23 -7.31	285	48
Texas Eastern, STX	7.120	7.09 -7.28	7.09 -7.17	100	16
Transco, zone 1	7.325	7.32 -7.33	7.32 -7.33	28	4
Louisiana-Onshore South					
ANR, La.	7.295	7.25 -7.37	7.26 -7.33	176	32
Columbia Gulf, La.	7.420	7.37 -7.47	7.39 -7.45	172	25
Columbia Gulf, mainline	7.450	7.43 -7.50	7.43 -7.47	75	18
Florida Gas, zone 1	7.445	7.43 -7.45	7.44 -7.45	140	8
Florida Gas, zone 2	7.440	7.43 -7.46	7.43 -7.45	94	10
Florida Gas, zone 3	7.545	7.43 -7.65	7.49 -7.60	347	29
Henry Hub	7.410	7.37 -7.60	7.37 -7.47	859	101
NGPL, La.	7.230	7.21 -7.35	7.21 -7.27	31	6
Southern Natural, La.	7.435	7.37 -7.53	7.39 -7.48	246	32
Tennessee, La., 500 Leg	7.295	7.27 -7.42	7.27 -7.33	253	43
Tennessee, La., 800 Leg	7.290	7.26 -7.34	7.27 -7.31	305	45
Texas Eastern, WLA	7.280	7.22 -7.35	7.25 -7.31	21	7
Texas Eastern, ELA	7.385	7.34 -7.52	7.34 -7.43	308	47
Texas Gas, zone SL	7.415	7.36 -7.49	7.38 -7.45	103	13
Transco, zone 2	7.355	7.33 -7.37	7.34 -7.37	53	11
Transco, zone 3	7.435	7.40 -7.53	7.40 -7.47	668	95
Trunkline, WLA	7.365	7.32 -7.38	7.35 -7.38	31	5
Trunkline, ELA	7.305	7.25 -7.38	7.27 -7.34	87	15
Oklahoma					
ANR, Okla.	6.555	6.50 -6.59	6.53 -6.58	51	13
CenterPoint, East	7.020	6.99 -7.07	7.00 -7.04	81	13
NGPL, Midcontinent	6.580	6.52 -6.74	6.52 -6.64	241	48
Oneok, Okla.	6.615	6.60 -6.64	6.60 -6.63	47	11
Panhandle, Tx.-Okla.	6.580	6.52 -6.60	6.56 -6.60	162	34
Southern Star, Tx.-Okla.-Kan.	6.540	6.51 -6.57	6.52 -6.56	38	4
New Mexico-San Juan Basin					
El Paso, Bondad	5.500	5.50 -5.50	5.50 -5.50	7	1
El Paso, San Juan Basin	5.575	5.49 -5.70	5.52 -5.63	365	38

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Gas Daily

Monday, June 20, 2005

Appalachia seen as 'bright spot' for gas supply

Although gas production and reserves in Appalachia aren't nearly as substantial as in other parts of the country, the mountainous region could nonetheless prove vital in meeting future U.S. gas demand, industry analysts agree.

Along with the Rocky Mountain region and the Barnett Shale of North Texas, Appalachia is one of only three potential "bright spots" where onshore domestic gas output could grow over the long term, said Shree Vikas, manager of energy markets with Science Applications International.

Gas production in Appalachia is dominated by small, privately held

(continued on page 6)

Dominion data snafu prompts class action suit

Dominion Transmission's erroneous gas storage data submission that caused a huge one-day spike in NYMEX futures prices last November has prompted two consumers to filed a class-action lawsuit against the company.

The plaintiffs, one from Virginia and the other from West Virginia, asserted in their complaint Thursday that consumer fuel costs were inflated due to Dominion's error which, according to FERC, temporarily boosted spot gas prices between $200 million and $1 billion *(GD 12/20)*.

The plaintiffs are seeking to recoup unspecified damages from

(continued on page 5)

Coast Guard issues draft EIS for Main Pass LNG

The U.S. Coast Guard and the U.S. Maritime Administration Friday issued a draft environmental impact statement for the Main Pass Energy Hub, a proposed liquefied natural gas import terminal off the Louisiana coast.

The 1 Bcf/day facility, proposed by Freeport-McMoRan Energy, would be located on a former sulphur mining facility in the Gulf of Mexico and would use four existing platforms "along with associated bridges and support structures with appropriate modifications and additions as part of the deepwater port," according to a notice in

(continued on page 5)

Cash keeps upward momentum in most regions

THE MARKET

An unrelenting heat wave along the Gulf Coast helped lift cash prices there by as much as 20 cents/MMBtu on Friday, while conflicting fundamentals in other regions created an unpredictable spot market.

With daytime temperatures expected to reach the mid-90s from Houston to New Orleans through the middle of this week, strong cooling demand—along with a rising NYMEX contract—more than offset the typical reduction in weekend industrial demand.

Trading was choppy as market players wrestled with the mixed

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.170

Trans. date: 6/17
Flow date(s): 6/18 -20

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.690	6.61-6.81	6.64-6.74	844	118
Waha	6.860	6.58-7.10	6.73-6.99	383	56
Transwestern, Permian Basin	5.935	5.85-5.95	5.91-5.95	62	12
East Texas-North Louisiana Area					
Carthage Hub	7.320	7.27-7.36	7.30-7.34	56	11
NGPL, Texok zone	7.315	7.29-7.35	7.30-7.33	212	28
Texas Eastern, ETX	7.170	7.17 -7.17	7.17 -7.17	10	2
Texas Gas, zone 1	7.590	7.55 -7.63	7.57 -7.61	73	17
East-Houston-Katy					
Houston Ship Channel	7.630	7.56 -7.71	7.59 -7.67	179	17
Katy	7.605	7.55 -7.67	7.57 -7.64	209	19
South-Corpus Christi					
Agua Dulce Hub	7.510	7.45 -7.62	7.47 -7.55	343	27
NGPL, STX	7.400	7.40 -7.40	7.40 -7.40	13	4
Tennessee, zone 0	7.440	7.38 -7.55	7.40 -7.48	311	62
Texas Eastern, STX	7.315	7.25 -7.41	7.27 -7.36	116	21
Transco, zone 1	7.530	7.53 -7.53	7.53 -7.53	19	5
Louisiana-Onshore South					
ANR, La.	7.465	7.43 -7.54	7.44 -7.49	117	21
Columbia Gulf, La.	7.580	7.53 -7.62	7.56 -7.60	115	22
Columbia Gulf, mainline	7.635	7.61 -7.68	7.62 -7.65	117	21
Florida Gas, zone 1	7.690	7.68 -7.70	7.68 -7.70	100	6
Florida Gas, zone 2	7.675	7.67 -7.69	7.67 -7.68	27	2
Florida Gas, zone 3	7.710	7.50 -7.79	7.64 -7.78	349	29
Henry Hub	7.600	7.52 -7.66	7.56 -7.64	890	115
NGPL, La.	7.455	7.45 -7.46	7.45 -7.46	19	3
Southern Natural, La.	7.570	7.53 -7.61	7.55 -7.59	174	27
Tennessee, La., 500 Leg	7.465	7.40 -7.52	7.43 -7.50	265	45
Tennessee, La., 800 Leg	7.470	7.42 -7.50	7.45 -7.49	226	30
Texas Eastern, WLA	7.490	7.47 -7.50	7.48 -7.50	23	4
Texas Eastern, ELA	7.570	7.52 -7.63	7.54 -7.60	248	44
Texas Gas, zone SL	7.590	7.55 -7.61	7.57 -7.61	130	21
Transco, zone 2	7.495	7.42 -7.51	7.47 -7.51	59	14
Transco, zone 3	7.585	7.55 -7.64	7.56 -7.61	627	78
Trunkline, WLA	7.545	7.53 -7.57	7.53 -7.56	29	4
Trunkline, ELA	7.490	7.46 -7.54	7.47 -7.51	80	16
Oklahoma					
ANR, Okla.	6.580	6.57 -6.63	6.57 -6.60	55	8
CenterPoint, East	7.240	7.19 -7.28	7.22 -7.26	175	30
NGPL, Midcontinent	6.550	6.45 -6.59	6.51 -6.59	260	47
Oneok, Okla.	7.030	7.03 -7.03	7.03 -7.03	35	7
Panhandle, Tx.-Okla.	6.620	6.52 -6.70	6.57 -6.67	123	24
Southern Star, Tx.-Okla.-Kan.	6.605	6.57 -6.63	6.59 -6.62	59	7
New Mexico-San Juan Basin					
El Paso, Bondad	5.910	5.75 -6.05	5.83 -5.99	11	4
El Paso, San Juan Basin	5.860	5.70 -6.05	5.77 -5.95	393	47

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Gas Daily

Tuesday, June 21, 2005

ESAI: Gas reserve growth will be 'very limited'

Any incremental gas production over the next five years will merely serve to offset steep declines from aging fields in Texas, Louisiana and Oklahoma, resulting in "very limited" reserve growth of less than 2%/year, according to a report issued Monday by Energy Security Analysis Inc.

The Wakefield, Mass.-based consultant said U.S. gas production as a percentage of total domestic supply is expected to drop below 80% after 2010 from about 85% today. And that trend will continue as liquefied natural gas imports gain a larger market share in the next decade, ESAI added.

Meanwhile, imports from Canada will decline until 2010 and then

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EnCana to unload storage assets, focus on E&P

In an effort to sharpen its focus on exploration and production, EnCana on Monday said it will sell or spin off its wealth of gas storage operations across North America.

"As a relatively small part of EnCana, gas storage is not considered crucial to the success of the company's upstream operations," said President and CEO Gwyn Morgan. "As EnCana continues to sharpen its focus on the exploration and development of its North American gas and oil resource plays, we have decided that EnCana may realize the best value from gas storage through a possible divestiture or an initial

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Two El Paso units float pipeline expansions

Furthering its pipeline-centric business plan, El Paso on Monday announced open seasons for two separate expansion projects—one in New York State and the other in Wisconsin and northern Illinois.

Subsidiary Tennessee Gas Pipeline began an open season for its Corning Extension Project, which is intended to provide transportation service from the Gulf Coast to an interconnection with the proposed Millennium Pipeline in Corning, N.Y.

The Corning Extension would combine existing upstream capacity with the construction of 31 miles of new pipeline from Tennessee's

(continued on page 4)

Hot weather sends prices up 70 cents in West

THE MARKET

Ignited by forecasts for soaring temperatures in several regions, cash prices on Monday shot up as much as 70 cents/MMBtu in the West and from 20 cents to a half-dollar in other regions.

Strength on the July NYMEX gas futures contract also provided some support, though late contract weakness took the edge off late spot deals, traders said.

Forecasts for triple-digit heat across the Southwest this week stoked demand at the California border and drove cash prices at Southern

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.480

Trans. date: 6/20
Flow date(s): 6/21

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.155	7.00-7.30	7.08-7.23	950	121
Waha	7.165	6.91-7.35	7.05-7.28	696	90
Transwestern, Permian Basin	6.510	6.45-6.60	6.47-6.55	18	4
East Texas-North Louisiana Area					
Carthage Hub	7.450	7.35-7.56	7.40-7.50	65	11
NGPL, Texok zone	7.460	7.25-7.52	7.39-7.52	154	30
Texas Eastern, ETX	7.520	7.52-7.52	7.52-7.52	10	2
Texas Gas, zone 1	7.730	7.67-7.79	7.70-7.76	61	16
East-Houston-Katy					
Houston Ship Channel	7.845	7.80-7.87	7.83-7.86	313	34
Katy	7.800	7.68-7.86	7.75-7.85	294	26
South-Corpus Christi					
Agua Dulce Hub	7.735	7.63-7.84	7.68-7.79	241	19
NGPL, STX	7.580	7.48-7.60	7.55-7.60	39	12
Tennessee, zone 0	7.630	7.40-7.77	7.54-7.72	303	45
Texas Eastern, STX	7.550	7.30-7.68	7.45-7.65	119	20
Transco, zone 1	7.570	7.47-7.65	7.52-7.62	27	6
Louisiana-Onshore South					
ANR, La.	7.620	7.50-7.74	7.56-7.68	79	16
Columbia Gulf, La.	7.680	7.45-7.81	7.59-7.77	37	8
Columbia Gulf, mainline	7.770	7.49-7.88	7.67-7.87	155	26
Florida Gas, zone 1	7.900	7.90-7.90	7.90-7.90	5	1
Florida Gas, zone 2	7.900	7.90-7.90	7.90-7.90	20	1
Florida Gas, zone 3	7.815	7.70-7.94	7.75-7.88	160	20
Henry Hub	7.820	7.47-7.87	7.72-7.87	942	126
NGPL, La.	7.625	7.53-7.70	7.58-7.67	33	5
Southern Natural, La.	7.775	7.49-7.86	7.68-7.86	163	26
Tennessee, La., 500 Leg	7.655	7.50-7.71	7.60-7.71	342	48
Tennessee, La., 800 Leg	7.590	7.40-7.71	7.51-7.67	249	31
Texas Eastern, WLA	7.720	7.62-7.79	7.68-7.76	27	8
Texas Eastern, ELA	7.760	7.58-7.86	7.69-7.83	294	50
Texas Gas, zone SL	7.710	7.47-7.82	7.62-7.80	129	28
Transco, zone 2	7.765	7.70-7.82	7.73-7.80	55	8
Transco, zone 3	7.795	7.51-7.91	7.69-7.90	565	70
Trunkline, WLA	7.700	7.50-7.76	7.63-7.76	36	9
Trunkline, ELA	7.700	7.65-7.74	7.68-7.72	174	27
Oklahoma					
ANR, Okla.	7.000	6.95-7.05	6.97-7.03	42	9
CenterPoint, East	7.405	7.34-7.47	7.37-7.44	62	16
NGPL, Midcontinent	7.035	6.96-7.10	7.00-7.07	260	48
Oneok, Okla.	7.170	7.15-7.20	7.16-7.18	26	5
Panhandle, Tx.-Okla.	7.035	6.96-7.11	7.00-7.07	136	28
Southern Star, Tx.-Okla.-Kan.	7.030	7.00-7.10	7.00-7.06	41	6
New Mexico-San Juan Basin					
El Paso, Bondad	6.405	6.34-6.50	6.36-6.45	11	5
El Paso, San Juan Basin	6.385	6.31-6.50	6.34-6.43	460	61

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Gas Daily

Wednesday, June 22, 2005

Despite protests, Senate backs OCS inventory

The Senate voted Tuesday to retain a controversial provision in its comprehensive energy bill calling for an inventory of gas and oil reserves on the Outer Continental Shelf—including areas currently off-limits to drilling.

An amendment offered by a group of coastal-state senators to strike the OCS inventory language was defeated 52-44, assuring that the provision will remain intact.

Inventory opponents argued that the measure, sponsored by Sen. Mary Landrieu, D-La., represents a first step toward opening new OCS lands to exploration and development, which they said would harm the

(continued on page 5)

Bill expected to spur gas drilling in New York

A bill awaiting passage in the New York legislature this week is aimed at stimulating gas development in the state—particularly in the promising Trenton-Black River play—as it would settle some thorny leasing issues that have kept many operators and landowners in court for years.

The existing leasing process has created confusion for well operators about just how royalty income from their gas production is to be divided, and that has pitted producers against property owners and land-leasing companies, explained Brad Gill, executive director of the

(continued on page 4)

Feinstein: Let states veto LNG terminal projects

Sen. Dianne Feinstein plans to introduce an amendment to the comprehensive energy bill today giving governors the authority to veto, approve or attach conditions to onshore liquefied natural gas terminals approved by the federal government.

"Given the sensitive nature of LNG facilities relating to security, I truly believe that states should have a say [in] where these facilities should be built," Feinstein, D-Calif., said in a statement Tuesday. "This amendment will not prevent LNG facilities from being built—it will just ensure that they are built where they pose the least risk to the public."

(continued on page 4)

Reversing course, cash prices fall 5 to 50 cents

THE MARKET

Weak fundamentals across much of North America combined with a tumbling NYMEX contract Tuesday to send cash prices spiraling downward by as much as 50 cents/MMBtu.

In a sharp reversal of Monday's big gains, prices in the Northeast nosedived between 40 cents and a half-dollar as AccuWeather called for demand-sapping temperatures ranging from the low 60s to the low 80s today.

"It was a benign day of trading," one Canadian trader reported.

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.200

Trans. date: 6/21
Flow date(s): 6/22

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.145	6.94-7.26	7.06-7.23	874	116
Waha	7.185	7.00-7.25	7.12-7.25	287	43
Transwestern, Permian Basin	6.550	6.55-6.55	6.55-6.55	21	5
East Texas-North Louisiana Area					
Carthage Hub	7.140	7.10-7.16	7.12-7.16	26	6
NGPL, Texok zone	7.145	7.10-7.18	7.12-7.17	181	22
Texas Eastern, ETX	7.100	7.10-7.10	7.10-7.10	10	2
Texas Gas, zone 1	7.375	7.26-7.42	7.33-7.42	102	20
East-Houston-Katy					
Houston Ship Channel	7.515	7.40-7.58	7.47-7.56	295	24
Katy	7.435	7.35-7.51	7.39-7.48	182	13
South-Corpus Christi					
Agua Dulce Hub	7.355	7.28-7.40	7.32-7.39	350	26
NGPL, STX	7.195	7.16-7.20	7.18-7.20	16	6
Tennessee, zone 0	7.305	7.27-7.40	7.27-7.34	353	54
Texas Eastern, STX	7.120	7.03-7.19	7.08-7.16	150	25
Transco, zone 1	7.260	7.25-7.30	7.25-7.27	12	5
Louisiana-Onshore South					
ANR, La.	7.290	7.24-7.35	7.26-7.32	96	23
Columbia Gulf, La.	7.405	7.37-7.48	7.38-7.43	112	26
Columbia Gulf, mainline	7.455	7.39-7.52	7.42-7.49	188	32
Florida Gas, zone 1	7.400	7.40-7.40	7.40-7.40	2	1
Florida Gas, zone 2	—	— —	— —	—	0
Florida Gas, zone 3	7.405	7.33-7.63	7.33-7.48	151	30
Henry Hub	7.470	7.37-7.57	7.42-7.52	514	67
NGPL, La.	7.310	7.28-7.35	7.29-7.33	32	9
Southern Natural, La.	7.405	7.35-7.46	7.38-7.43	259	41
Tennessee, La., 500 Leg	7.295	7.22-7.34	7.26-7.33	361	50
Tennessee, La., 800 Leg	7.310	7.26-7.35	7.29-7.33	256	37
Texas Eastern, WLA	7.320	7.25-7.34	7.30-7.34	77	13
Texas Eastern, ELA	7.375	7.31-7.45	7.34-7.41	223	38
Texas Gas, zone SL	7.385	7.35-7.45	7.36-7.41	174	28
Transco, zone 2	7.340	7.31-7.37	7.32-7.36	137	22
Transco, zone 3	7.450	7.37-7.50	7.42-7.48	545	74
Trunkline, WLA	7.410	7.37-7.46	7.39-7.43	49	5
Trunkline, ELA	7.355	7.30-7.38	7.33-7.38	160	27
Oklahoma					
ANR, Okla.	6.895	6.80-6.95	6.86-6.93	42	10
CenterPoint, East	7.125	7.09-7.15	7.11-7.14	110	19
NGPL, Midcontinent	6.935	6.82-7.00	6.89-6.98	209	38
Oneok, Okla.	6.900	6.90-6.90	6.90-6.90	19	3
Panhandle, Tx.-Okla.	6.970	6.81-7.08	6.90-7.04	161	29
Southern Star, Tx.-Okla.-Kan.	6.900	6.85-6.90	6.89-6.90	38	5
New Mexico-San Juan Basin					
El Paso, Bondad	6.340	6.33-6.34	6.34-6.34	6	2
El Paso, San Juan Basin	6.340	6.27-6.39	6.31-6.37	231	43

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Gas Daily

Friday, June 24, 2005

Chinese raise hackles with bid to buy Unocal

State-owned Chinese National Overseas Oil Co.'s $18.5 billion bid for California-based producer Unocal roiled political and financial waters Thursday as industry analysts were split on the proposal's chances and U.S. government officials called for investigations into the national security ramifications.

CNOOC's $67/share cash offer for Unocal—which had been rumored for days—trumps San Ramon, Calif.-based Chevron's $16.6 billion, $65/share bid made earlier this year and approved by the Federal Trade Commission this month (*GD 6/13*).

Both firms have their eyes on Unocal's Asian gas reserves—Chevron

(continued on page 7)

Montana tribe to open reservation to drilling

The Blackfeet Indian Nation of northwestern Montana plans to open 150,000 acres of its reservation to gas exploration and production in hopes of tapping a wealth of reserves just south of the Canadian border.

The acreage, which abuts Alberta's prolific Pincher Creek and Waterton fields, contains at least 30 Bcf of gas based on two-dimensional seismic surveys of the region, said Ted Bland, a Houston-based consultant working with the tribe.

Under terms of the tribe's request for bids (*see box, page 6*), the Blackfeet hope to lease the land at a minimum bid of $10/acre for an

(continued on page 5)

Plastics industry 'dying' from high gas costs

Members of the Society of the Plastics Industry are unhappy with the Senate's decision not to lift the ban on gas drilling on the Outer Continental Shelf, said Eugene Steadman Jr., chairman of the trade group's energy task force.

The industry has lost 150,000 jobs over the past three years because of high gas prices, and accessing new supplies from the OCS was seen as the best hope for relief, Steadman told *Gas Daily* Thursday after appearing with U.S. senators at a press briefing in Washington, D.C.

Steadman said he had hoped the Senate would take up an

(continued on page 4)

Intense heat wave lifts cash in most regions

THE MARKET

The return of blistering heat across much of the Midwest and Northeast sent cash prices rallying between 20 cents and 30 cents on Thursday, while seasonal weather and a lackadaisical July NYMEX contract lent little support to other markets.

With the National Weather Service calling for a high of 97 degrees today in Chicago and Detroit and 93 degrees in Cleveland, utility demand soared in the upper Midwest and sent spot prices on a tear.

"We're having a hotter summer than last year," one trader said in offering a reason why, with storage inventories at record levels, prices

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.290

Trans. date: 6/23
Flow date(s): 6/24

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	7.175	7.07-7.27	7.12-7.23	1089	120
Waha	7.195	7.00-7.32	7.11-7.28	510	69
Transwestern, Permian Basin	6.595	6.55-6.62	6.58-6.61	26	5
East Texas-North Louisiana Area					
Carthage Hub	7.285	7.25-7.32	7.27-7.30	14	4
NGPL, Texok zone	7.350	7.23-7.41	7.30-7.40	130	20
Texas Eastern, ETX	—	— —	— —	—	0
Texas Gas, zone 1	7.510	7.47 -7.54	7.49 -7.53	75	14
East-Houston-Katy					
Houston Ship Channel	7.510	7.42 -7.58	7.47 -7.55	238	24
Katy	7.465	7.37 -7.56	7.42 -7.51	161	19
South-Corpus Christi					
Agua Dulce Hub	7.415	7.32 -7.49	7.37 -7.46	341	25
NGPL, STX	7.340	7.34 -7.35	7.34 -7.34	9	4
Tennessee, zone 0	7.370	7.33 -7.45	7.34 -7.40	334	52
Texas Eastern, STX	7.250	7.20 -7.31	7.22 -7.28	121	25
Transco, zone 1	7.395	7.34 -7.42	7.37 -7.42	26	8
Louisiana-Onshore South					
ANR, La.	7.410	7.36 -7.45	7.39 -7.43	150	35
Columbia Gulf, La.	7.470	7.42 -7.52	7.44 -7.50	195	34
Columbia Gulf, mainline	7.550	7.51 -7.57	7.53 -7.57	85	16
Florida Gas, zone 1	7.425	7.40 -7.49	7.40 -7.45	9	2
Florida Gas, zone 2	7.495	7.49 -7.51	7.49 -7.50	30	2
Florida Gas, zone 3	7.470	7.44 -7.54	7.44 -7.50	134	22
Henry Hub	7.505	7.44 -7.56	7.47 -7.54	546	78
NGPL, La.	7.395	7.33 -7.43	7.37 -7.42	72	11
Southern Natural, La.	7.480	7.45 -7.51	7.46 -7.50	178	33
Tennessee, La., 500 Leg	7.380	7.32 -7.46	7.34 -7.42	255	48
Tennessee, La., 800 Leg	7.350	7.32 -7.40	7.33 -7.37	179	27
Texas Eastern, WLA	7.395	7.37 -7.42	7.38 -7.41	45	9
Texas Eastern, ELA	7.445	7.38 -7.49	7.42 -7.47	182	33
Texas Gas, zone SL	7.500	7.48 -7.54	7.48 -7.52	72	13
Transco, zone 2	7.440	7.41 -7.47	7.42 -7.46	131	18
Transco, zone 3	7.515	7.45 -7.56	7.49 -7.54	553	79
Trunkline, WLA	7.480	7.47 -7.49	7.47 -7.49	29	4
Trunkline, ELA	7.470	7.44 -7.52	7.45 -7.49	106	26
Oklahoma					
ANR, Okla.	6.915	6.87 -6.94	6.90 -6.93	38	11
CenterPoint, East	7.300	7.21 -7.37	7.26 -7.34	118	20
NGPL, Midcontinent	6.890	6.84 -6.93	6.87 -6.91	163	39
Oneok, Okla.	6.995	6.98 -7.05	6.98 -7.01	17	4
Panhandle, Tx.-Okla.	6.940	6.89 -7.04	6.90 -6.98	107	26
Southern Star, Tx.-Okla.-Kan.	6.945	6.91 -6.95	6.93 -6.95	24	4
New Mexico-San Juan Basin					
El Paso, Bondad	6.340	6.31 -6.35	6.33 -6.35	32	6
El Paso, San Juan Basin	6.340	6.30 -6.40	6.31 -6.37	295	37

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Gas Daily

Monday, June 27, 2005

Auditor: Mass. working to fix LNG safety issues

The Massachusetts Dept. of Telecommunications and Energy has improved its oversight of safety procedures at liquefied natural gas storage facilities after an audit showed DTE was not fulfilling its responsibilities, state auditor Joe DeNucci said in a report Friday.

An audit that began last October found that the DTE was not enforcing its requirement that operators of LNG plants develop and submit fire study and prevention plans, evacuation plans, and annual operator training reports, according to DeNucci's office.

"When requested, the DTE could not provide us with copies of the required plans and agreed that they were not in compliance," according

(continued on page 6)

Group fights plan to drill off Mississippi coast

An unlikely coalition of real estate developers, casino owners and environmental groups is rebelling against the state of Mississippi's plans to conduct seismic tests off the Gulf Islands National Seashore and then drill for any gas found in state waters there.

But a spokesman for Mississippi Gov. Haley Barbour said the Republican governor does not plan to accede to the 12 Miles South Coalition's request to introduce legislation this week banning such drilling.

Robert Barq, a Biloxi real estate developer, said in an interview

(continued on page 5)

Panel urges rejection of California energy plan

A citizens' panel recommended last week that the California Legislature reject Gov. Arnold Schwarzenegger's plan to reorganize the state's energy regulatory function by shifting oversight of gas pipeline and power transmission facilities to a different agency.

Schwarzenegger had proposed creating a state Energy Dept. and a Secretary of Energy post to strengthen oversight of the state's gas, electricity and other energy industries. But his proposal also included a plan to streamline permitting of new gas pipeline and power transmission projects by transferring jurisdiction from the

(continued on page 4)

Cash prices hot in Northeast, cool elsewhere

THE MARKET

Competing market forces led to a volatile cash market Friday, with prices tumbling as much as 35 cents in some regions while gaining a few pennies in the sweltering Northeast.

Forecasts for unseasonably hot weather from the Mid-Atlantic states to New England over the weekend brought buyers out in force, sending city-gate prices up about a nickel on average. AccuWeather called for temperatures in the mid-90s in Boston and New York on Saturday, creating enough cooling load to offset a morning drop on the July

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.210

Trans. date: 6/24
Flow date(s): 6/25 -27

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.905	6.84-7.02	6.86-6.95	483	70
Waha	6.955	6.55-7.10	6.82-7.09	387	52
Transwestern, Permian Basin	6.475	6.40-6.57	6.43-6.52	51	10
East Texas-North Louisiana Area					
Carthage Hub	7.250	7.20-7.26	7.23-7.26	33	4
NGPL, Texok zone	7.270	7.22-7.33	7.24-7.30	200	29
Texas Eastern, ETX	7.140	7.14 -7.14	7.14 -7.14	1	1
Texas Gas, zone 1	7.425	7.35 -7.48	7.39 -7.46	52	14
East-Houston-Katy					
Houston Ship Channel	7.490	7.25 -7.57	7.41 -7.57	402	39
Katy	7.455	7.40 -7.51	7.43 -7.48	290	26
South-Corpus Christi					
Agua Dulce Hub	7.395	7.30 -7.42	7.36 -7.42	199	14
NGPL, STX	7.275	7.20 -7.30	7.25 -7.30	8	3
Tennessee, zone 0	7.345	7.26 -7.42	7.30 -7.39	266	49
Texas Eastern, STX	7.290	7.25 -7.35	7.26 -7.32	76	17
Transco, zone 1	7.380	7.35 -7.40	7.37 -7.39	14	5
Louisiana-Onshore South					
ANR, La.	7.345	7.30 -7.42	7.31 -7.38	198	38
Columbia Gulf, La.	7.420	7.35 -7.45	7.39 -7.45	147	30
Columbia Gulf, mainline	7.475	7.43 -7.55	7.44 -7.51	125	25
Florida Gas, zone 1	7.415	7.41 -7.42	7.41 -7.42	36	4
Florida Gas, zone 2	7.470	7.47 -7.47	7.47 -7.47	10	3
Florida Gas, zone 3	7.505	7.48 -7.57	7.48 -7.53	118	16
Henry Hub	7.460	7.34 -7.50	7.42 -7.50	299	41
NGPL, La.	7.345	7.28 -7.37	7.32 -7.37	39	7
Southern Natural, La.	7.430	7.32 -7.49	7.39 -7.47	168	30
Tennessee, La., 500 Leg	7.390	7.34 -7.42	7.37 -7.41	281	43
Tennessee, La., 800 Leg	7.385	7.34 -7.41	7.37 -7.40	250	37
Texas Eastern, WLA	7.370	7.31 -7.40	7.35 -7.39	80	18
Texas Eastern, ELA	7.395	7.30 -7.42	7.36 -7.42	208	39
Texas Gas, zone SL	7.440	7.34 -7.47	7.41 -7.47	140	21
Transco, zone 2	7.445	7.40 -7.48	7.42 -7.47	69	11
Transco, zone 3	7.515	7.46 -7.54	7.49 -7.54	429	63
Trunkline, WLA	7.475	7.43 -7.48	7.46 -7.48	22	3
Trunkline, ELA	7.385	7.35 -7.42	7.37 -7.40	141	23
Oklahoma					
ANR, Okla.	6.815	6.76 -6.86	6.79 -6.84	35	7
CenterPoint, East	7.235	7.15 -7.26	7.21 -7.26	104	16
NGPL, Midcontinent	6.775	6.74 -6.79	6.76 -6.79	223	37
Oneok, Okla.	6.990	6.95 -7.03	6.97 -7.01	27	6
Panhandle, Tx.-Okla.	6.855	6.80 -6.90	6.83 -6.88	111	27
Southern Star, Tx.-Okla.-Kan.	6.860	6.80 -6.92	6.83 -6.89	63	12
New Mexico-San Juan Basin					
El Paso, Bondad	6.070	6.03 -6.08	6.06 -6.08	35	6
El Paso, San Juan Basin	6.105	6.05 -6.20	6.07 -6.14	284	37

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Gas Daily

Tuesday, June 28, 2005

Chinese firm pledges to retain Unocal's jobs

Pledging to keep California-based Unocal's work force on the job and boost the company's Gulf of Mexico gas production, the CEO of state-owned China National Offshore Oil Corp. on Monday sent a letter to all members of Congress asking for an immediate, full-scale review of CNOOC's $19.6 billion bid for Unocal.

The letter is part of a newly launched public relations blitz aimed at assuaging fears that a merger of an American exploration-and-production company with a Chinese conglomerate would harm U.S. interests.

It also comes as U.S. lawmakers' rhetoric against Chinese trade and monetary policies escalates. Since CNOOC first announced the Unocal

(continued on page 5)

Woodside ends joint LNG deal, eyes own project

Australia's Woodside Petroleum said Monday it is considering developing its own liquefied natural gas receiving terminal off the U.S. West Coast after withdrawing from a proposed joint venture with Crystal Energy.

The two firms signed an agreement in October 2004 under which Woodside committed to providing technical expertise and funding to expedite project approvals for the development of the Clearwater Port off Ventura County, Calif., in return for preferential rights to access the terminal's 800,000 Mcf/day of capacity.

(continued on page 4)

Study: Energy trading sector will keep growing

Driven by higher commodity prices and volatility, the energy trading sector will continue expanding through at least 2006, particularly as the natural gas and power markets recover from their post-Enron slump, according to a new study.

"Elevated prices and increased instability in energy commodity are driving increased activity in energy trading and risk management," said Jill Feblowitz, program director for Energy Insights, a subsidiary of Framingham, Mass.-based IDC, which specializes in technology analysis and consulting.

(continued on page 3)

NYMEX falls another 22.2 cents; cash retreats

THE MARKET

The July NYMEX futures contract continued its downward spiral toward the $7/MMBtu mark on Monday, dropping another 22.2 cents to settle at $7.138 as traders liquidated some length ahead of today's contract expiration.

The downturn, which came on the heels of an 11.3-cent decline on Friday, "was a little surprising considering the hot weather we've had throughout the weekend," an analyst said.

Despite expectations for unseasonably high temperatures and strong electricity demand in some regions this week, market players apparently

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 7.070

Trans. date: 6/27
Flow date(s): 6/28

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.805	6.75-6.90	6.77-6.84	550	79
Waha	6.860	6.70-6.99	6.79-6.93	596	73
Transwestern, Permian Basin	6.345	6.34-6.36	6.34-6.35	20	6
East Texas-North Louisiana Area					
Carthage Hub	7.115	7.08-7.15	7.10-7.13	27	7
NGPL, Texok zone	7.145	7.10-7.19	7.12-7.17	204	40
Texas Eastern, ETX	7.000	7.00-7.00	7.00-7.00	5	2
Texas Gas, zone 1	7.250	7.21-7.28	7.23-7.27	83	14
East-Houston-Katy					
Houston Ship Channel	7.295	7.26-7.34	7.27-7.32	277	26
Katy	7.250	7.19-7.28	7.23-7.27	250	25
South-Corpus Christi					
Agua Dulce Hub	7.205	7.18-7.23	7.19-7.22	189	16
NGPL, STX	7.150	7.15-7.16	7.15-7.15	10	3
Tennessee, zone 0	7.175	7.15-7.20	7.16-7.19	246	38
Texas Eastern, STX	7.085	7.06-7.11	7.07-7.10	129	29
Transco, zone 1	7.260	7.24-7.28	7.25-7.27	13	3
Louisiana-Onshore South					
ANR, La.	7.210	7.17-7.25	7.19-7.23	235	45
Columbia Gulf, La.	7.260	7.21-7.29	7.24-7.28	151	40
Columbia Gulf, mainline	7.320	7.28-7.36	7.30-7.34	123	23
Florida Gas, zone 1	7.320	7.26-7.33	7.30-7.33	116	7
Florida Gas, zone 2	7.315	7.28-7.33	7.30-7.33	124	10
Florida Gas, zone 3	7.400	7.36-7.43	7.38-7.42	157	19
Henry Hub	7.290	7.22-7.33	7.26-7.32	542	63
NGPL, La.	7.175	7.15-7.19	7.16-7.19	15	4
Southern Natural, La.	7.265	7.20-7.30	7.24-7.29	384	50
Tennessee, La., 500 Leg	7.225	7.18-7.25	7.21-7.24	309	53
Tennessee, La., 800 Leg	7.215	7.18-7.24	7.20-7.23	248	40
Texas Eastern, WLA	7.245	7.21-7.27	7.23-7.26	39	9
Texas Eastern, ELA	7.260	7.19-7.29	7.23-7.29	228	27
Texas Gas, zone SL	7.270	7.22-7.29	7.25-7.29	144	27
Transco, zone 2	7.285	7.27-7.30	7.28-7.29	70	9
Transco, zone 3	7.345	7.31-7.36	7.33-7.36	469	71
Trunkline, WLA	7.250	7.20-7.29	7.23-7.27	48	8
Trunkline, ELA	7.240	7.22-7.26	7.23-7.25	86	17
Oklahoma					
ANR, Okla.	6.740	6.72-6.82	6.72-6.77	51	10
CenterPoint, East	7.090	7.04-7.15	7.06-7.12	152	18
NGPL, Midcontinent	6.715	6.67-6.76	6.69-6.74	206	42
Oneok, Okla.	6.845	6.80-6.88	6.82-6.87	29	7
Panhandle, Tx.-Okla.	6.745	6.72-6.82	6.72-6.77	153	36
Southern Star, Tx.-Okla.-Kan.	6.770	6.77-6.77	6.77-6.77	4	1
New Mexico-San Juan Basin					
El Paso, Bondad	6.095	6.08-6.14	6.08-6.11	27	6
El Paso, San Juan Basin	6.105	6.06-6.14	6.08-6.13	335	38

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Gas Daily

Wednesday, June 29, 2005

Senate passes energy bill; House talks hopeful

The Senate overwhelmingly passed a comprehensive energy bill Tuesday designed to boost natural gas supplies and provide incentives for the production and use of renewable energy.

On a vote of 85-12, the Senate capped two weeks of intense debate that held together bipartisan agreements despite periodic threats from Florida senators to filibuster the bill if it eased federal moratoria on gas drilling in the Outer Continental Shelf.

The United States is "one step closer to greater energy security," Energy Secretary Samuel Bodman told reporters after the vote.

The Senate enters House-led conference negotiations to reconcile the

(continued on page 6)

Canada, U.S. Northeast foresee LNG windfall

Increasing the liquefied natural gas profile of Atlantic Canada and the U.S. Northeast could benefit both at the expense of neither, officials and analysts said Monday at an LNG symposium in Halifax, Nova Scotia.

LNG will make up 10% to 15% of U.S. gas supplies within a decade, and "there are very significant first-mover advantages" to those companies that can get their projects operating first, said Benjamin Schlesinger, president of Bethesda, Md.-based consultancy Benjamin Schlesinger and Associates.

Brian Lee Crowley, president of the Atlantic Institute for Market

(continued on page 5)

Barton: CNOOC's Unocal offer 'security threat'

The level of rhetoric in opposition to state-owned China National Offshore Oil Corp.'s $19.6 billion bid for Unocal ratcheted up a level in Washington Monday with the head of the House Energy and Commerce committee calling the proposed acquisition a "clear and direct threat to the energy and national security of the United States."

U.S. Rep. Joe Barton, R-Texas, said the proposed acquisition not only would put valuable energy assets in the hand of an aggressive Chinese government but would allow for the transfer of advanced U.S. technologies to the Asian giant.

(continued on page 4

Expiring NYMEX drags cash down 20 to 40 cents

THE MARKET

The July NYMEX gas futures contract lost 16.2 cents Tuesday, the third straight day of losses, to settle at $6.976/MMBtu as market players continued to liquidate positions ahead of expiration. The cash market rode the contract down 20 to 40 cents, ignoring the effects of heat-related demand in many parts of the country.

The July gas futures contract has lost a total of 49.7 cents over the past three sessions. A broker said the market continued to work off overbought conditions from earlier in the month, when weather-related

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.840

Trans. date: 6/28
Flow date(s): 6/29

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.585	6.50-6.78	6.51-6.66	585	83
Waha	6.610	6.36-6.90	6.47-6.75	399	65
Transwestern, Permian Basin	6.000	6.00-6.00	6.00-6.00	3	1
East Texas-North Louisiana Area					
Carthage Hub	6.830	6.80-6.85	6.82-6.84	21	7
NGPL, Texok zone	6.905	6.87-6.95	6.88-6.93	297	43
Texas Eastern, ETX	6.700	6.70-6.70	6.70-6.70	6	2
Texas Gas, zone 1	7.005	6.93-7.07	6.97-7.04	72	15
East-Houston-Katy					
Houston Ship Channel	7.040	7.01-7.08	7.02-7.06	275	25
Katy	7.010	6.92-7.05	6.98-7.04	196	19
South-Corpus Christi					
Agua Dulce Hub	6.935	6.91-6.98	6.92-6.95	149	10
NGPL, STX	6.920	6.90-6.93	6.91-6.93	6	5
Tennessee, zone 0	6.935	6.88-7.03	6.90-6.97	298	45
Texas Eastern, STX	6.885	6.78-7.02	6.82-6.95	119	25
Transco, zone 1	6.910	6.90-6.93	6.90-6.92	6	6
Louisiana-Onshore South					
ANR, La.	6.970	6.92-7.04	6.94-7.00	90	20
Columbia Gulf, La.	7.005	6.97-7.05	6.98-7.03	118	18
Columbia Gulf, mainline	7.065	7.02-7.18	7.02-7.11	139	20
Florida Gas, zone 1	7.035	7.00-7.05	7.02-7.05	91	7
Florida Gas, zone 2	7.050	7.00-7.08	7.03-7.07	127	10
Florida Gas, zone 3	7.125	7.08-7.17	7.10-7.15	90	14
Henry Hub	7.055	6.99-7.15	7.01-7.10	746	90
NGPL, La.	6.935	6.91-6.99	6.91-6.96	26	5
Southern Natural, La.	7.040	7.01-7.10	7.02-7.06	261	37
Tennessee, La., 500 Leg	7.005	6.93-7.07	6.97-7.04	518	78
Tennessee, La., 800 Leg	6.980	6.96-7.10	6.96-7.02	87	20
Texas Eastern, WLA	7.005	6.95-7.04	6.98-7.03	104	21
Texas Eastern, ELA	7.005	6.94-7.18	6.94-7.07	163	34
Texas Gas, zone SL	7.020	6.97-7.12	6.98-7.06	94	17
Transco, zone 2	7.065	7.04-7.12	7.04-7.09	73	10
Transco, zone 3	7.090	7.06-7.21	7.06-7.13	536	87
Trunkline, WLA	7.050	7.05-7.05	7.05-7.05	10	1
Trunkline, ELA	6.990	6.96-7.02	6.97-7.01	42	9
Oklahoma					
ANR, Okla.	6.455	6.42-6.68	6.42-6.52	42	9
CenterPoint, East	6.855	6.83-6.90	6.84-6.87	135	24
NGPL, Midcontinent	6.505	6.41-6.70	6.43-6.58	150	28
Oneok, Okla.	6.630	6.60-6.67	6.61-6.65	56	6
Panhandle, Tx.-Okla.	6.505	6.40-6.67	6.44-6.57	232	46
Southern Star, Tx.-Okla.-Kan.	6.600	6.60-6.60	6.60-6.60	4	1
New Mexico-San Juan Basin					
El Paso, Bondad	5.775	5.66-5.87	5.72-5.83	23	5
El Paso, San Juan Basin	5.810	5.70-5.92	5.75-5.87	194	24

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Gas Daily

Thursday, June 30, 2005

White House to name Kelliher chairman of FERC

President Bush plans to elevate Commissioner Joseph Kelliher to the FERC chairman's seat as early as today, replacing the retiring Pat Wood III, several sources said Wednesday.

White House personnel officials were alerting congressional leaders Wednesday afternoon of Bush's intention to name Kelliher, a Republican, to the post, the sources said.

In April, Wood announced that he will leave FERC and return to his native Texas when his term expires today. There had been active speculation for months about Wood's eventual replacement, with various state regulators mentioned.

(continued on page 5)

French firm ramps up U.S. gas trading operation

French conglomerate Societe Generale is expanding its U.S. gas and power trading operation with the hiring of six senior traders in its New York City office, the firm's SG Corporate & Investment Banking arm announced Wednesday.

The move follows Lehman Brothers' move earlier this month to recruit senior personnel for a new energy trading business (*GD 6/23*) and a recent infusion into the gas and power markets by such Wall Street firms as Merrill Lynch, UBS and Goldman Sachs.

"The expansion in natural gas and power trading builds upon SG

(continued on page 5)

Calpine to unload gas reserves for $1.05 billion

Debt-laden merchant power generator Calpine said Tuesday it would sell 383 Bcf-equivalent of gas and oil reserves for $1.05 billion to a newly created indirect subsidiary.

The new company will be headed by the Houston managers of Calpine's in-house exploration-and-production unit, Calpine Fuels Co., sources familiar with the deal told *Gas Daily*.

The fuels division managers will be backed by $725 million in private capital from a consortium of institutional lenders and have access to $325 million in credit. When the sale closes next week,

(continued on page 4)

Heat, humidity lend support to cash market

THE MARKET

The cash market responded to sustained heat across much of the country and a small gain on the August NYMEX futures contract Wednesday to climb between a dime and 20 cents in most regions. In the West, however, prices at some points lost ground on threats of a second day of high-inventory operational flow orders.

The PG&E city-gate experienced weakness early, although prices climbed as the morning progressed as concerns about an OFO were allayed. Consequently, PG&E prices traded in a relatively wide 25-cent

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.930

Trans. date: 6/29
Flow date(s): 6/30

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.770	6.60-6.92	6.69-6.85	646	105
Waha	6.800	6.58-6.92	6.71-6.89	409	59
Transwestern, Permian Basin	6.000	6.00-6.00	6.00-6.00	11	3
East Texas-North Louisiana Area					
Carthage Hub	6.960	6.90-6.98	6.94-6.98	39	7
NGPL, Texok zone	6.995	6.91-7.05	6.96-7.03	392	52
Texas Eastern, ETX	7.085	6.80 -7.25	6.97 -7.20	17	3
Texas Gas, zone 1	7.095	7.05 -7.16	7.07 -7.12	56	12
East-Houston-Katy					
Houston Ship Channel	7.080	7.04 -7.20	7.04 -7.12	274	21
Katy	7.055	7.03 -7.09	7.04 -7.07	89	7
South-Corpus Christi					
Agua Dulce Hub	7.015	6.97 -7.09	6.98 -7.05	173	12
NGPL, STX	6.990	6.95 -7.00	6.98 -7.00	4	4
Tennessee, zone 0	7.020	6.96 -7.07	6.99 -7.05	312	41
Texas Eastern, STX	6.970	6.91 -7.02	6.94 -7.00	207	40
Transco, zone 1	7.105	7.09 -7.12	7.10 -7.11	33	11
Louisiana-Onshore South					
ANR, La.	7.040	7.00 -7.09	7.02 -7.06	110	23
Columbia Gulf, La.	7.120	7.06 -7.18	7.09 -7.15	196	31
Columbia Gulf, mainline	7.180	7.13 -7.21	7.16 -7.20	145	23
Florida Gas, zone 1	7.095	7.05 -7.16	7.07 -7.12	60	7
Florida Gas, zone 2	7.110	7.07 -7.20	7.08 -7.14	103	9
Florida Gas, zone 3	7.210	7.16 -7.25	7.19 -7.23	121	16
Henry Hub	7.075	7.00 -7.20	7.02 -7.13	638	87
NGPL, La.	7.055	6.97 -7.10	7.02 -7.09	21	5
Southern Natural, La.	7.130	7.07 -7.18	7.10 -7.16	302	36
Tennessee, La., 500 Leg	7.065	6.94 -7.14	7.01 -7.12	371	56
Tennessee, La., 800 Leg	7.070	6.99 -7.12	7.04 -7.10	223	38
Texas Eastern, WLA	7.050	7.00 -7.15	7.01 -7.09	65	15
Texas Eastern, ELA	7.095	7.03 -7.15	7.06 -7.13	265	35
Texas Gas, zone SL	7.095	7.04 -7.16	7.06 -7.13	115	16
Transco, zone 2	7.150	7.15 -7.15	7.15 -7.15	37	8
Transco, zone 3	7.180	7.10 -7.24	7.14 -7.22	544	70
Trunkline, WLA	7.095	7.07 -7.15	7.07 -7.12	23	5
Trunkline, ELA	7.075	7.01 -7.12	7.05 -7.10	84	18
Oklahoma					
ANR, Okla.	6.665	6.65 -6.71	6.65 -6.68	33	9
CenterPoint, East	6.950	6.88 -7.02	6.91 -6.99	126	13
NGPL, Midcontinent	6.675	6.59 -6.71	6.64 -6.71	139	39
Oneok, Okla.	6.720	6.65 -6.74	6.70 -6.74	55	7
Panhandle, Tx.-Okla.	6.670	6.60 -6.72	6.64 -6.70	173	44
Southern Star, Tx.-Okla.-Kan.	6.655	6.65 -6.68	6.65 -6.66	44	3
New Mexico-San Juan Basin					
El Paso, Bondad	5.635	5.59 -5.70	5.61 -5.66	59	11
El Paso, San Juan Basin	5.615	5.58 -5.76	5.58 -5.66	401	42

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Gas Daily

Friday, July 1, 2005

FERC backs two LNG projects, rejects KeySpan's

FERC on Thursday approved another Gulf Coast liquefied natural gas terminal and gave its blessing to a contentious LNG import facility in New England. But the commission rejected KeySpan LNG's proposed terminal expansion in Providence, R.I., saying it would not meet federal safety standards.

Over the objections of Commissioner Suedeen Kelly, FERC approved Weaver's Cove Energy's import terminal in Fall River, Mass. If built, the terminal and related pipeline system will include a 4.4-Bcf LNG storage tank, vaporization equipment sized for a send-out of 400,000 Mcf/day and two 24-inch-diameter pipelines.

(continued on page 5)

FERC approves $13 billion Exelon/PSEG merger

FERC on Thursday approved Exelon's $13 billion acquisition of Newark, N.J.-based Public Service Enterprise Group, a deal that would create the nation's largest gas and electric utility company.

The commission said the proposed mega-merger is in the public interest and would bring benefits to consumers in the two utilities' service territories.

Chicago-based Exelon announced its plans to acquire PSEG in December *(GD 12/21)* and the two companies filed their proposal with FERC in February. The plan drew intense opposition from some

(continued on page 5)

XTO spreads wings—again—with Piceance deal

XTO Energy, in a move that signals an expansion into yet another gas play, said Thursday it has signed a deal with ExxonMobil to develop acreage in the northeastern corner of the Piceance Basin in Colorado.

Under terms of the deal, XTO will "farm in" about 69,500 contiguous gross acres east of ExxonMobil's Piceance Creek Unit in Rio Blanco and Garfield counties. XTO will operate and earn 50% working interest ownership in the entire leasehold position by drilling four wells.

Fort Worth, Texas-based XTO said it plans to begin drilling the first

(continued on page 4)

Spot prices stronger in West, weaker elsewhere

THE MARKET

The Southwest was the only region to see a decisive move in spot prices Thursday as some points gained more than 30 cents. Other markets were mixed as traders sorted out conflicting fundamentals ahead of the long holiday weekend.

Prices received no support from the August NYMEX futures contract, which bounced around like a pinball, and many traders sat on the sidelines waiting for some sense of which way the market ultimately would go. According to one source, "People were trying to figure out what to do."

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 6.830

Trans. date: 6/30
Flow date(s): 7/01

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	6.560	6.45-6.70	6.50-6.62	537	88
Waha	6.590	6.50-6.68	6.54-6.64	734	94
Transwestern, Permian Basin	6.100	6.10-6.10	6.10-6.10	14	1
East Texas-North Louisiana Area					
Carthage Hub	6.845	6.80-6.90	6.82-6.87	85	16
NGPL, Texok zone	6.890	6.80-6.95	6.85-6.93	426	64
Texas Eastern, ETX	6.780	6.78-6.78	6.78-6.78	13	2
Texas Gas, zone 1	7.015	6.99-7.06	7.00-7.03	63	12
East-Houston-Katy					
Houston Ship Channel	6.985	6.94-7.01	6.97-7.00	377	40
Katy	6.955	6.93-7.00	6.94-6.97	270	29
South-Corpus Christi					
Agua Dulce Hub	6.900	6.85-6.92	6.88-6.92	204	17
NGPL, STX	6.865	6.84-6.88	6.85-6.88	39	5
Tennessee, zone 0	6.880	6.85-6.91	6.86-6.90	362	51
Texas Eastern, STX	6.795	6.77-6.84	6.78-6.81	217	35
Transco, zone 1	6.955	6.93-6.98	6.94-6.97	110	17
Louisiana-Onshore South					
ANR, La.	6.925	6.90-6.96	6.91-6.94	131	31
Columbia Gulf, La.	7.015	6.95-7.10	6.98-7.05	187	32
Columbia Gulf, mainline	7.065	7.02-7.10	7.04-7.09	137	17
Florida Gas, zone 1	7.020	7.00-7.03	7.01-7.03	200	14
Florida Gas, zone 2	7.070	7.04-7.12	7.05-7.09	93	9
Florida Gas, zone 3	7.175	7.12-7.18	7.16-7.18	71	11
Henry Hub	7.015	6.97-7.12	6.98-7.05	1138	114
NGPL, La.	6.915	6.90-6.94	6.90-6.93	47	6
Southern Natural, La.	7.000	6.96-7.04	6.98-7.02	161	24
Tennessee, La., 500 Leg	6.955	6.90-7.10	6.90-7.01	540	84
Tennessee, La., 800 Leg	6.935	6.90-6.97	6.92-6.95	226	38
Texas Eastern, WLA	6.880	6.86-6.95	6.86-6.90	54	17
Texas Eastern, ELA	6.960	6.91-7.05	6.92-7.00	204	32
Texas Gas, zone SL	7.005	6.95-7.05	6.98-7.03	155	31
Transco, zone 2	7.015	7.00-7.09	7.00-7.04	66	14
Transco, zone 3	7.070	7.02-7.15	7.04-7.10	595	80
Trunkline, WLA	6.975	6.97-6.98	6.97-6.98	24	4
Trunkline, ELA	6.930	6.90-6.96	6.91-6.95	49	12
Oklahoma					
ANR, Okla.	6.455	6.44-6.49	6.44-6.47	22	9
CenterPoint, East	6.780	6.72-6.89	6.74-6.82	176	31
NGPL, Midcontinent	6.475	6.42-6.51	6.45-6.50	308	52
Oneok, Okla.	6.510	6.45-6.55	6.48-6.54	44	8
Panhandle, Tx.-Okla.	6.470	6.42-6.55	6.44-6.50	380	56
Southern Star, Tx.-Okla.-Kan.	6.510	6.48-6.55	6.49-6.53	28	8
New Mexico-San Juan Basin					
El Paso, Bondad	5.990	5.90-6.05	5.95-6.03	35	6
El Paso, San Juan Basin	5.995	5.84-6.05	5.94-6.05	421	70

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Gas Daily

Friday, September 2, 2005

October NYMEX settles at record-high $11.757

THE MARKET

The October NYMEX futures contract on Thursday settled at another prompt-month record high—$11.757/MMBtu—as a flurry of damage reports stemming from Hurricane Katrina and a bullish storage inventory report lifted the contract 28.5 cents.

"Nobody knows what the commodity is worth," said a Miami-based broker. "Nobody can tell us how much damage has been done and how long the impact will be. So you'll continue to have the wild volatility in the market."

The October contract opened at $11.25, down 22.2 cents from Wednesday's close, and slid to a low of $11.225 before surging to $11.90

(continued on page 2)

Rig crews return, but 79% of gas still curtailed

Gulf of Mexico producers repopulated nearly half of their evacuated platforms Thursday, although about 79% of gas production remained shut in as downstream pipelines and processing plants had difficulty ramping up because of widespread electricity outages caused by Hurricane Katrina.

The Minerals Management Service said producers had remanned 49% of the Gulf's 819 production platforms and returned 479,000 Mcf/day of gas to production, leaving 7.87 Bcf/day curtailed.

Offshore, reports of damaged rigs and platforms increased to at least

(continued on page 5)

Pioneer to exit deepwater Gulf, buy back shares

Pioneer Natural Resources on Thursday announced plans to exit the deepwater Gulf of Mexico, sell its non-operated assets in Argentina and launch a $1 billion share buyback program.

The initiatives will result in "a smaller, focused company with a stronger platform for growth," Dallas-based Pioneer said.

As a result of the planned asset sales, Pioneer will reduce its exploration budget for 2006 to 15% to 20% of total capital from its current level of 30%. The company also said it would reallocate a large chunk of capital from exploration drilling to onshore development and

(continued on page 4)

Analysts now doubt storage will reach 3.3 Tcf

With another lower-than-expected gas storage build reported Thursday, and with Hurricane Katrina's damage to production infrastructure still unknown, several analysts concurred this week that gas storage inventories won't match last year's record level.

The Energy Information Administration on Thursday reported a net injection of 58 Bcf for the week ending Aug. 26, raising stocks nationwide to 2.633 Tcf. In the same week of 2004, EIA reported an 81-Bcf build and 2.683 Tcf in storage.

(continued on page 3)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/01
Flow date(s): 9/02

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.365	9.10-9.75	9.20-9.53	507	80
Waha	9.305	8.75-9.75	9.05-9.56	610	82
Transwestern, Permian Basin	9.005	8.85-9.10	8.94-9.07	6	3
East Texas-North Louisiana Area					
Carthage Hub	9.730	9.35-10.15	9.53-9.93	116	18
NGPL, Texok zone	9.940	9.70-10.22	9.81-10.07	345	66
Texas Eastern, ETX	9.580	9.30-10.50	9.30-9.88	23	6
Texas Gas, zone 1	11.270	11.18-11.35	11.23-11.31	91	19
East-Houston-Katy					
Houston Ship Channel	10.160	10.02-11.15	10.02-10.44	253	23
Katy	10.160	10.05-10.60	10.05-10.30	406	39
South-Corpus Christi					
Agua Dulce Hub	10.125	10.00-10.25	10.06-10.19	122	10
NGPL, STX	10.125	9.81-10.23	10.02-10.23	22	4
Tennessee, zone 0	10.185	10.00-10.50	10.06-10.31	474	62
Texas Eastern, STX	10.070	10.00-10.45	10.00-10.18	197	39
Transco, zone 1	10.010	9.99-10.25	9.99-10.08	31	6
Louisiana-Onshore South					
ANR, La.	11.355	11.23-11.45	11.30-11.41	127	23
Columbia Gulf, La.	11.345	11.26-11.80	11.26-11.48	296	47
Columbia Gulf, mainline	11.430	11.40-11.49	11.41-11.45	52	15
Florida Gas, zone 1	14.060	14.00-15.00	14.00-14.31	85	2
Florida Gas, zone 2	15.045	12.60-15.50	14.32-15.50	100	10
Florida Gas, zone 3	15.930	15.00-16.50	15.55-16.31	184	10
Henry Hub	11.365	11.24-12.20	11.24-11.61	805	88
NGPL, La.	11.130	10.95-11.25	11.05-11.21	20	7
Southern Natural, La.	12.760	11.90-13.10	12.46-13.06	85	9
Tennessee, La., 500 Leg	11.615	11.45-11.80	11.53-11.70	71	6
Tennessee, La., 800 Leg	11.375	11.20-11.65	11.26-11.49	218	32
Texas Eastern, WLA	11.125	11.05-11.70	11.05-11.29	287	36
Texas Eastern, ELA	11.585	11.50-12.10	11.50-11.74	48	10
Texas Gas, zone SL	11.350	11.22-11.80	11.22-11.50	142	22
Transco, zone 2	10.745	10.25-11.25	10.49-11.00	132	19
Transco, zone 3	12.200	11.78-12.50	12.02-12.38	404	49
Trunkline, WLA	11.295	11.25-11.30	11.28-11.30	17	4
Trunkline, ELA	11.430	11.30-11.50	11.38-11.48	3	3
Oklahoma					
ANR, Okla.	9.290	9.22-9.33	9.26-9.32	43	10
CenterPoint, East	9.660	9.45-10.05	9.51-9.81	162	31
NGPL, Midcontinent	9.335	9.18-9.55	9.24-9.43	92	19
Oneok, Okla.	9.395	9.39-9.44	9.39-9.41	36	2
Panhandle, Tx.-Okla.	9.270	9.10-9.35	9.21-9.33	273	42
Southern Star, Tx.-Okla.-Kan.	9.250	9.18-9.30	9.22-9.28	65	7
New Mexico-San Juan Basin					
El Paso, Bondad	8.710	8.69-8.74	8.70-8.72	73	14
El Paso, San Juan Basin	8.780	8.65-8.95	8.70-8.86	149	36

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Gas Daily

Tuesday, September 6, 2005

Market 'on edge' as NYMEX holds near $12

THE MARKET

Following an exceptionally volatile week, the October NYMEX futures contract went out quietly on Friday, settling 6.6 cents lower at $11.691/MMBtu in an unusually light trading session ahead of the Labor Day weekend.

"The market's on edge right now trying to figure out the extent of damage" caused by Hurricane Katrina, an analyst said. While three-fourths of Gulf of Mexico gas and oil supply remains shut in Friday due to the storm, the situation "hasn't been totally bad. We're slowly getting some production back on line."

After opening at $11.70, the front-month contract traded in its

(continued on page 2)

MMS: 72.5% of Gulf production still shut in

Producers on Friday restarted about 618,000 Mcf/day of Gulf of Mexico production curtailed by Hurricane Katrina and prepared to spend much of the weekend waiting for local utilities to reconnect power to gas processing plants in the region—one of the last remaining bottlenecks in the gas supply chain.

Producers reported remanning 95 more platforms and 11 more rigs Friday, but nearly 40% remained without personnel, according to the New Orleans office of the Minerals Management Service. Operators reduced the amount of shut-in production to 7.2 Bcf/day, or 72.5% of

(continued on page 4)

Katrina slams LDCs already hit by gas costs

Last week, dozens of local distribution companies across the country were in the process of preparing residential customers for record-high gas bills this winter—and then came Hurricane Katrina.

Since the deadly storm blew through the Gulf of Mexico and knocked about 80% of gas production off-line, many of those same LDCs, along with a host of others, have been scrambling to get the word out that heating bills will be even more painful for consumers than anyone expected just a few days earlier.

"The hurricane has made the situation worse," said a spokesman for

(continued on page 6)

NERC worried about grid flow, gas dependence

The growing dependence on gas-fired generation and increasing stress placed on the nation's electric transmission system will be causes for concern over the next 10 years, the North American Electric Reliability Council said Friday in its long-term reliability assessment.

Although the transmission system is expected to operate reliably overall, "some portions of the grid will not be able to support all desired electricity market transactions" as existing constraints recur and new constraints appear as power flow patterns change, NERC said.

(continued on page 3)

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/02
Flow date(s): 9/03-06

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.660	9.54-9.83	9.59-9.73	779	101
Waha	9.735	9.40-9.90	9.61-9.86	964	127
Transwestern, Permian Basin	8.800	8.75-8.95	8.75-8.85	18	6
East Texas-North Louisiana Area					
Carthage Hub	10.205	9.70-10.60	9.98-10.43	143	22
NGPL, Texok zone	10.165	9.99-10.40	10.06-10.27	380	55
Texas Eastern, ETX	9.435	9.40-9.50	9.41-9.46	8	3
Texas Gas, zone 1	11.655	11.60-11.77	11.61-11.70	55	14
East-Houston-Katy					
Houston Ship Channel	10.530	10.39-10.75	10.44-10.62	343	30
Katy	10.555	10.45-10.65	10.50-10.61	580	57
South-Corpus Christi					
Agua Dulce Hub	10.495	10.42-10.60	10.45-10.54	195	19
NGPL, STX	10.155	9.70-10.34	9.99-10.32	33	11
Tennessee, zone 0	10.465	10.20-10.55	10.38-10.55	528	74
Texas Eastern, STX	10.335	10.01-10.60	10.19-10.48	163	39
Transco, zone 1	10.395	10.38-10.41	10.39-10.40	35	7
Louisiana-Onshore South					
ANR, La.	11.675	11.52-11.76	11.61-11.74	111	23
Columbia Gulf, La.	11.720	11.62-11.81	11.67-11.77	273	49
Columbia Gulf, mainline	11.750	11.70-12.00	11.70-11.83	136	24
Florida Gas, zone 1	—	— —	— —	—	0
Florida Gas, zone 2	14.965	12.90-15.40	14.34-15.40	86	7
Florida Gas, zone 3	16.350	15.22-17.25	15.84-16.86	382	17
Henry Hub	11.745	11.65-11.90	11.68-11.81	640	102
NGPL, La.	11.365	11.35-11.40	11.35-11.38	7	2
Southern Natural, La.	12.975	12.75-13.08	12.89-13.06	47	7
Tennessee, La., 500 Leg	11.790	11.50-12.25	11.60-11.98	71	8
Tennessee, La., 800 Leg	11.735	11.63-11.78	11.70-11.77	136	20
Texas Eastern, WLA	11.195	11.10-11.56	11.10-11.31	266	35
Texas Eastern, ELA	11.900	11.60-12.25	11.74-12.06	51	9
Texas Gas, zone SL	11.695	11.60-11.80	11.64-11.75	98	19
Transco, zone 2	10.850	10.60-11.00	10.75-10.95	96	14
Transco, zone 3	12.085	10.90-12.75	11.62-12.55	458	58
Trunkline, WLA	11.740	11.65-11.85	11.69-11.79	13	6
Trunkline, ELA	11.750	11.61-11.85	11.69-11.81	8	8
Oklahoma					
ANR, Okla.	9.450	9.40-9.55	9.41-9.49	60	16
CenterPoint, East	9.675	9.35-9.90	9.54-9.81	113	24
NGPL, Midcontinent	9.460	9.44-9.50	9.44-9.48	122	30
Oneok, Okla.	9.625	9.50-9.85	9.54-9.71	50	9
Panhandle, Tx.-Okla.	9.450	9.41-9.48	9.43-9.47	211	29
Southern Star, Tx.-Okla.-Kan.	9.425	9.40-9.43	9.42-9.43	53	7
New Mexico-San Juan Basin					
El Paso, Bondad	8.680	8.65-8.72	8.66-8.70	53	12
El Paso, San Juan Basin	8.770	8.50-8.88	8.67-8.87	265	38

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Gas Daily

Wednesday, September 7, 2005

Gulf pipelines say 6.3 Bcf/day still not flowing

Nearly half of the 8.8 Bcf/day of Gulf of Mexico gas production knocked out by Hurricane Katrina remained off-line Tuesday, while offshore gas pipelines said 6.3 Bcf/day was still not flowing either because of storm-related production cuts or damage to lines and processing plants.

El Paso's 7 Bcf/day Tennessee Gas Pipeline was experiencing throughput reductions of 700,000 Mcf/day upstream of the Port Sulphur Compressor Station as of Tuesday afternoon, a company spokesman said. Tennessee said it had confirmed leaks on the 26-inch-diameter line at Ship Shoal 157 and Ship Shoal 144 offshore Louisiana and had

(continued on page 4)

Gas grid aided by storage supplies, low demand

Even though 8% to 16% of daily gas supplies have disappeared in Hurricane Katrina's wake, markets across the country have managed to stay whole largely because of a significant drop in demand, particularly in the Gulf Coast region, industry officials said Tuesday.

But as winter approaches and heating demand returns, any lingering supply curtailments in the Gulf of Mexico could pose problems for local distribution companies and their customers.

"LDCs and most businesses in the Gulf region are not drawing anything right now" as recovery efforts continue in a region that typically

(continued on page 3)

Cheniere plans to enter LNG marketing arena

Shedding its image of a company that strictly builds terminals and leases capacity on them, Cheniere Energy on Tuesday announced plans to buy and market liquefied natural gas cargoes for at least three years at its Sabine Pass LNG terminal under construction in Cameron Parish, La.

Hoping to capitalize on the emerging LNG spot market, the Houston-based company issued a request for proposals for up to 200 LNG cargoes/year at the facility from 2008 to 2010. The terminal is scheduled to start operating in the first quarter of 2008 and would be

(continued on page 3)

Cash markets mixed as NYMEX inches lower

THE MARKET

Spot prices on Thursday ended mixed as the market continued to seek direction in the aftermath of Hurricane Katrina. Traders said the October NYMEX futures contract provided little guidance as it closed 3.4 cents lower at $11.657/MMBtu.

The front-month contract swung in and out of positive territory throughout the day, trading in a broad $11.46 to $11.80 range. "It doesn't really want to break [lower], but it won't go up either," said an analyst.

Another analyst cited psychological pressure from oil and gasoline prices, which dropped off significantly in Tuesday's session as supply

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.630

Trans. date: 9/06
Flow date(s): 9/07

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.745	9.56-9.88	9.66-9.83	565	92
Waha	9.845	9.71-9.91	9.79-9.90	528	72
Transwestern, Permian Basin	8.920	8.80-9.05	8.86-8.98	21	7
East Texas-North Louisiana Area					
Carthage Hub	9.890	9.75-10.15	9.79-9.99	120	14
NGPL, Texok zone	10.250	10.00-10.45	10.14-10.36	316	53
Texas Eastern, ETX	9.400	9.40 -9.40	9.40 -9.40	5	2
Texas Gas, zone 1	11.650	11.34-11.76	11.54-11.76	45	13
East-Houston-Katy					
Houston Ship Channel	10.705	10.43-10.90	10.59-10.82	325	26
Katy	10.565	10.42-10.67	10.50-10.63	441	45
South-Corpus Christi					
Agua Dulce Hub	10.610	10.30-11.00	10.43-10.79	228	20
NGPL, STX	10.005	9.97 -10.05	9.98 -10.03	48	10
Tennessee, zone 0	10.720	10.44-11.00	10.58-10.86	233	36
Texas Eastern, STX	10.075	9.83 -10.30	9.96 -10.19	123	31
Transco, zone 1	10.230	10.03-10.35	10.15-10.31	26	6
Louisiana-Onshore South					
ANR, La.	11.445	11.30-11.75	11.33-11.56	147	28
Columbia Gulf, La.	11.615	11.33-11.73	11.51-11.72	293	46
Columbia Gulf, mainline	11.690	11.50-11.83	11.61-11.77	101	19
Florida Gas, zone 1	11.700	11.70-11.70	11.70-11.70	5	1
Florida Gas, zone 2	12.250	12.25-12.25	12.25-12.25	16	4
Florida Gas, zone 3	13.580	13.00-15.00	13.08-14.08	162	12
Henry Hub	11.580	11.37-11.85	11.46-11.70	359	57
NGPL, La.	11.250	11.25-11.25	11.25-11.25	35	3
Southern Natural, La.	12.035	11.59-12.25	11.87-12.20	4	2
Tennessee, La., 500 Leg	11.615	11.52-11.65	11.58-11.65	145	15
Tennessee, La., 800 Leg	11.435	11.39-11.54	11.40-11.47	234	38
Texas Eastern, WLA	11.205	11.00-11.36	11.11-11.30	299	50
Texas Eastern, ELA	11.535	11.20-11.75	11.40-11.67	40	9
Texas Gas, zone SL	11.555	11.15-11.80	11.39-11.72	302	46
Transco, zone 2	10.685	10.50-10.90	10.58-10.79	56	12
Transco, zone 3	11.690	11.40-12.01	11.54-11.84	326	57
Trunkline, WLA	11.670	11.62-11.70	11.65-11.69	10	2
Trunkline, ELA	11.580	11.30-11.70	11.48-11.68	54	15
Oklahoma					
ANR, Okla.	9.590	9.48 -9.80	9.51 -9.67	40	10
CenterPoint, East	9.520	9.42 -9.80	9.42 -9.62	89	26
NGPL, Midcontinent	9.575	9.50 -9.75	9.51 -9.64	79	18
Oneok, Okla.	9.600	9.60 -9.60	9.60 -9.60	6	1
Panhandle, Tx.-Okla.	9.525	9.34 -9.60	9.46 -9.59	275	47
Southern Star, Tx.-Okla.-Kan.	9.575	9.43 -9.70	9.51 -9.64	100	10
New Mexico-San Juan Basin					
El Paso, Bondad	8.835	8.82 -8.85	8.83 -8.84	44	8
El Paso, San Juan Basin	8.915	8.85 -9.04	8.87 -8.96	156	39

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Gas Daily

Thursday, September 8, 2005

EIA hikes price forecast 16% due to Katrina

The Energy Information Administration on Wednesday painted a turbulent picture of the near-term gas market, making dramatic upward revisions to its price projections while sharply cutting its estimates of demand and storage inventories.

As the industry struggles with supply disruptions caused by Hurricane Katrina, EIA added nearly $3/Mcf to its fourth-quarter Henry Hub price estimate and $1.19/Mcf to its full-year 2005 forecast.

In its September short-term energy outlook, EIA also reduced its full-year 2005 demand forecast by 560 Bcf, to 22.28 Tcf, and said it now sees gas storage stocks totaling just 2.81 Tcf on Sept. 30, down 280 Bcf from

(continued on page 6)

Gulf shut-ins remain at 4 Bcf/day

Gulf of Mexico natural gas producers—who had already restored more than half of the 8.8 Bcf/day of production shut in by Hurricane Katrina—hit the wall Wednesday, restoring a paltry 124,310 Mcf/day of gas, or 1%, to production.

A survey of 59 producers by the Minerals Management Service found producers had remanned another 29 of the Gulf's 819 platforms and nine of the region's 134 drilling rigs, but the amount of shut-in production remained stuck at just over 4 Bcf/day, 40% of the Gulf's normal 10 Bcf/day output.

(continued on page 4)

With no cash, Gulf munis struggle to rebuild

Small municipally owned gas companies in the areas hardest hit by Hurricane Katrina are faced with the Herculean task of rebuilding their infrastructure at a time when there is no revenue coming in to pay for it, officials assisting in the recovery effort said this week.

While larger investor-owned utilities "can usually throw in the resources and work to stabilize the system, the smaller municipal systems are in trouble. And closer to the coast, they've been wiped out," noted Bill Coffeen, senior vice president of privately owned Mobile Gas and its parent EnergySouth.

(continued on page 3)

NYMEX falls 45.6 cents; cash markets follow

THE MARKET

As the market continued its attempts to stabilize in the wake of Hurricane Katrina, spot gas prices plummeted Wednesday between 30 and 70 cents in most regions, but as much as $2/MMBtu in Florida, where temperatures dropped ahead of yet another tropical storm.

The October NYMEX gas futures contract did its part to exert downward pressure on prices, opening at $11.32/MMBtu and eventually falling to $11.05/MMBtu, its lowest point since Aug. 29. October closed at $11.201/MMBtu, a 45.6-cent plunge from Tuesday,

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.120

Trans. date: 9/07
Flow date(s): 9/08

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	9.015	8.85-9.15	8.94-9.09	374	59
Waha	9.155	8.99-9.25	9.09-9.22	626	88
Transwestern, Permian Basin	8.475	8.35-8.57	8.42-8.53	16	8
East Texas-North Louisiana Area					
Carthage Hub	9.200	9.00-10.00	9.00-9.45	201	28
NGPL, Texok zone	9.625	9.42-9.81	9.53-9.72	519	91
Texas Eastern, ETX	9.250	9.25-9.25	9.25-9.25	7	2
Texas Gas, zone 1	11.010	10.82-11.19	10.92-11.10	99	18
East-Houston-Katy					
Houston Ship Channel	10.310	9.95-10.75	10.11-10.51	347	32
Katy	10.105	9.95-10.20	10.04-10.17	473	54
South-Corpus Christi					
Agua Dulce Hub	10.080	9.93-10.15	10.02-10.14	115	9
NGPL, STX	9.485	9.44-9.65	9.44-9.54	37	11
Tennessee, zone 0	10.055	9.90-10.26	9.96-10.15	476	74
Texas Eastern, STX	10.005	9.70-10.10	9.90-10.10	224	45
Transco, zone 1	9.520	9.40-9.70	9.44-9.60	12	5
Louisiana-Onshore South					
ANR, La.	10.790	10.70-10.90	10.74-10.84	183	40
Columbia Gulf, La.	10.985	10.88-11.15	10.92-11.05	309	48
Columbia Gulf, mainline	11.110	11.06-11.30	11.06-11.17	134	22
Florida Gas, zone 1	11.195	10.90-11.27	11.10-11.27	9	3
Florida Gas, zone 2	11.635	11.20-11.80	11.48-11.79	37	4
Florida Gas, zone 3	12.095	11.70-13.75	11.70-12.61	204	7
Henry Hub	11.035	10.82-11.35	10.90-11.17	412	54
NGPL, La.	10.725	10.65-10.80	10.69-10.76	30	5
Southern Natural, La.	11.250	10.90-11.30	11.15-11.30	33	6
Tennessee, La., 500 Leg	10.865	10.78-10.97	10.82-10.91	101	21
Tennessee, La., 800 Leg	10.815	10.74-11.10	10.74-10.91	225	35
Texas Eastern, WLA	10.755	10.61-10.92	10.68-10.83	372	50
Texas Eastern, ELA	10.930	10.79-11.15	10.84-11.02	122	21
Texas Gas, zone SL	11.025	10.82-11.30	10.90-11.15	244	38
Transco, zone 2	10.580	10.30-10.83	10.45-10.71	96	18
Transco, zone 3	11.045	10.90-11.53	10.90-11.20	565	94
Trunkline, WLA	10.865	10.70-10.93	10.81-10.92	12	3
Trunkline, ELA	10.885	10.80-11.00	10.83-10.94	65	17
Oklahoma					
ANR, Okla.	8.900	8.88-8.98	8.88-8.93	38	9
CenterPoint, East	9.185	9.10-9.25	9.15-9.22	68	21
NGPL, Midcontinent	8.945	8.88-9.20	8.88-9.03	107	26
Oneok, Okla.	9.050	9.05-9.05	9.05-9.05	19	2
Panhandle, Tx.-Okla.	8.905	8.81-9.05	8.84-8.97	199	37
Southern Star, Tx.-Okla.-Kan.	8.990	8.85-9.25	8.89-9.09	130	13
New Mexico-San Juan Basin					
El Paso, Bondad	8.340	8.30-8.40	8.31-8.37	107	20
El Paso, San Juan Basin	8.465	8.45-8.57	8.45-8.50	177	27

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Gas Daily

Friday, September 9, 2005

Eastern Gulf shut-ins stalled at 4 Bcf/day

While four of the five Gulf Coast districts controlled by the Minerals Management Services' Gulf of Mexico regional office have restored nearly all of their natural gas production, the fifth—the easternmost New Orleans district—has been unable to restore any gas to production, figures released Thursday by the MMS revealed.

Overall, shut-in production volumes remained steady at 4 Bcf/day for the second straight day, the MMS said, based on reports from 56 companies.

The Houma and New Orleans districts have seen the amount of shut-in production increase this week. An MMS spokeswoman said those small increases were due to late reports from one operator.

(continued on page 7)

Calpine, Bear Stearns form trading venture

In the latest example of a financial services firm moving into the energy trading arena, Bear Stearns announced Thursday it is launching a joint venture with Calpine that combines the physical assets and operational experience of Calpine Energy Services with Bear Stearns' financial resources and risk management expertise.

Assuming FERC approves the transaction in October, Calpine and Bear Stearns anticipate their Houston-based venture, CalBear Energy LP, will begin operating sometime in early 2006, officials with both companies said.

Speaking with analysts, the officials said CalBear is not a hedge

(continued on page 6)

Officials: Gas-fired plants to strain supply

New gas-fired power generation capacity in eastern Canada and the U.S. Northeast will strain an already tight gas market over the next several years, although industry officials differed Thursday on just how great the impact will be.

Paul DuMaresq, director of marketing for Shell Trading, said the Ontario government's June 2004 call to reduce the province's reliance on coal-fired electricity has resulted in about 25,000 MW of gas-fired replacement capacity being proposed. He said those plants' "potential" gas consumption is about 73 petajoules/year, or about 7 Bcf annually.

(continued on page 5)

NYMEX gains 14 cents on continued shut-ins

THE MARKET

The October NYMEX gas futures contract weakened throughout the trading day Thursday, eventually tumbling 20 cents by midday to dip below the $11/MMBtu mark before regaining its footing and reaching a close of $11.34/MMBtu, up 14 cents.

The October contract shrugged off those early morning losses after a mid-afternoon report issued by the U.S. Minerals Management Service showed minimal improvement in gas and oil production shut in by Hurricane Katrina, sources said *(see related story above)*.

MMS said gas shut-in volumes Thursday fell only marginally from

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.120

Trans. date: 9/08
Flow date(s): 9/09

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.825	8.76-9.00	8.76-8.89	332	52
Waha	8.915	8.74-9.15	8.81-9.02	543	78
Transwestern, Permian Basin	8.425	8.35-8.50	8.39-8.46	28	7
East Texas-North Louisiana Area					
Carthage Hub	9.460	9.15-9.95	9.26-9.66	155	23
NGPL, Texok zone	9.685	9.51-9.92	9.58-9.79	367	65
Texas Eastern, ETX	9.195	9.15-9.30	9.16-9.23	14	4
Texas Gas, zone 1	10.890	10.84-10.93	10.87-10.91	35	9
East-Houston-Katy					
Houston Ship Channel	10.095	9.70-10.30	9.94-10.25	219	17
Katy	9.885	9.80-10.00	9.83-9.94	343	37
South-Corpus Christi					
Agua Dulce Hub	9.860	9.70-10.20	9.73-9.99	87	8
NGPL, STX	9.730	9.60-9.80	9.68-9.78	97	23
Tennessee, zone 0	10.135	9.75-10.30	10.00-10.27	330	43
Texas Eastern, STX	9.950	9.60-10.20	9.80-10.10	172	33
Transco, zone 1	9.685	9.64-9.70	9.67-9.70	27	5
Louisiana-Onshore South					
ANR, La.	10.785	10.71-10.85	10.75-10.82	92	23
Columbia Gulf, La.	10.875	10.80-10.92	10.84-10.91	322	50
Columbia Gulf, mainline	11.010	10.90-11.03	10.98-11.03	174	32
Florida Gas, zone 1	10.955	10.95-10.98	10.95-10.96	13	2
Florida Gas, zone 2	11.185	11.10-11.20	11.16-11.20	81	10
Florida Gas, zone 3	11.745	11.40-12.25	11.53-11.96	170	9
Henry Hub	10.925	10.80-11.10	10.85-11.00	777	101
NGPL, La.	10.440	10.40-10.65	10.40-10.50	51	7
Southern Natural, La.	11.185	10.93-11.30	11.09-11.28	61	7
Tennessee, La., 500 Leg	11.060	10.93-11.14	11.01-11.11	68	14
Tennessee, La., 800 Leg	10.775	10.60-10.85	10.71-10.84	265	40
Texas Eastern, WLA	10.585	10.54-10.65	10.56-10.61	350	38
Texas Eastern, ELA	10.915	10.70-11.00	10.84-10.99	62	14
Texas Gas, zone SL	10.875	10.79-10.92	10.84-10.91	201	27
Transco, zone 2	10.700	10.50-10.87	10.61-10.79	83	18
Transco, zone 3	10.980	10.89-11.07	10.93-11.03	593	100
Trunkline, WLA	10.880	10.88-10.88	10.88-10.88	6	1
Trunkline, ELA	10.850	10.81-10.88	10.83-10.87	45	12
Oklahoma					
ANR, Okla.	8.840	8.78-9.00	8.78-8.90	30	9
CenterPoint, East	9.405	9.35-9.48	9.37-9.44	33	8
NGPL, Midcontinent	8.880	8.80-9.00	8.83-8.93	126	30
Oneok, Okla.	9.060	9.03-9.10	9.04-9.08	11	2
Panhandle, Tx.-Okla.	8.880	8.70-9.05	8.79-8.97	253	45
Southern Star, Tx.-Okla.-Kan.	8.820	8.74-8.88	8.78-8.86	21	4
New Mexico-San Juan Basin					
El Paso, Bondad	8.310	8.28-8.40	8.28-8.34	85	13
El Paso, San Juan Basin	8.370	8.25-8.56	8.29-8.45	206	47

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Gas Daily

Monday, September 12, 2005

Katrina takes a toll on energy market liquidity

Hurricane Katrina has taken a chunk out of the volume being traded in the natural gas market, and sources last week pointed not only to production shut-ins, but also to price volatility and credit issues that could take more than a few weeks to sort out.

"Volume this week has been very light in natural gas," said Addison Armstrong, manager of exchange traded markets for TFS Energy, a Stamford, Conn.-based broker. "And it's going to continue to be an issue as traders learn the true extent of the damage [caused by Hurricane Katrina]."

Armstrong said it could take two or three weeks before the extent of damage is known. And until then, it could be hard to buy or sell in the

(continued on page 7)

Eastern Gulf restores 2% more production

Gulf producers restored a trickle of their shut-in production Friday, the Minerals Management Service said, but a closer look at the numbers indicates that Hurricane Katrina may have caused untold damage to the platforms and pipelines in her path across the eastern portion of the Gulf of Mexico producing region.

A survey of 56 energy producers Friday revealed that 2% of shut-in production, or 191,810 Mcf/day, was returned to service, leaving 3.828 Bcf/day, or 38% of the Gulf's normal 10 Bcf/day of natural gas production, still offline.

(continued on page 5)

End-users grapple with ways to cut gas costs

Slammed with the highest natural gas costs in their histories, two of Canada's largest industrial consumers have stepped up price-mitigation efforts to ensure their continued viability, officials with the companies said Friday.

But with gas above $10/MMBtu and future market direction unpredictable, even hedging and other risk management tools are becoming more and more expensive—raising the question of whether the benefit is worth the cost.

"We are a high-volume [gas] user, so higher prices and higher

(continued on page 4)

NYMEX dips 8.4 cents in quiet trading day

THE MARKET

The October NYMEX gas futures contract ended 8.4 cents lower at $11.263/MMBtu Friday in a slow day of consolidation following the prior week's sharp run-up into virtually uncharted territory, sources said Friday.

Trading got off to a late start at 11 a.m. EDT after a commemorative service for the victims of the Sept. 11, 2001, terrorist attacks.

The front-month contract then traded in and out of positive territory between $11.23/MMBtu and $11.41/MMBtu. A broker pointed to a little less uncertainty in the market after government and independent

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.190

Trans. date: 9/09
Flow date(s): 9/10-12

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.940	8.87-9.20	8.87-9.02	239	40
Waha	9.060	8.91-9.30	8.96-9.16	517	67
Transwestern, Permian Basin	8.390	8.30-8.50	8.34-8.44	5	3
East Texas-North Louisiana Area					
Carthage Hub	9.645	9.50-9.80	9.57-9.72	43	5
NGPL, Texok zone	9.810	9.75-9.91	9.77-9.85	335	53
Texas Eastern, ETX	9.265	9.00-9.60	9.11-9.42	11	3
Texas Gas, zone 1	10.960	10.96-10.96	10.96-10.96	9	2
East-Houston-Katy					
Houston Ship Channel	10.100	9.83-10.90	9.83-10.37	390	29
Katy	9.935	9.85-10.05	9.88-9.99	445	37
South-Corpus Christi					
Agua Dulce Hub	9.840	9.63-9.95	9.76-9.92	253	19
NGPL, STX	9.740	9.50-9.81	9.66-9.81	38	8
Tennessee, zone 0	9.855	9.72-10.00	9.78-9.93	290	42
Texas Eastern, STX	9.785	9.75-9.90	9.75-9.82	179	36
Transco, zone 1	9.765	9.63-9.80	9.72-9.80	10	5
Louisiana-Onshore South					
ANR, La.	10.810	10.76-10.85	10.79-10.83	148	32
Columbia Gulf, La.	10.970	10.91-11.02	10.94-11.00	240	39
Columbia Gulf, mainline	11.055	11.03-11.08	11.04-11.07	116	20
Florida Gas, zone 1	11.020	11.02-11.02	11.02-11.02	1	1
Florida Gas, zone 2	11.290	11.20-11.50	11.21-11.37	48	9
Florida Gas, zone 3	11.735	11.50-12.23	11.55-11.92	152	9
Henry Hub	11.030	10.97-11.15	10.98-11.08	401	59
NGPL, La.	10.550	10.47-10.65	10.50-10.60	47	6
Southern Natural, La.	11.505	11.20-11.90	11.33-11.68	126	12
Tennessee, La., 500 Leg	11.080	10.95-11.15	11.03-11.13	66	14
Tennessee, La., 800 Leg	10.825	10.72-11.03	10.75-10.90	144	27
Texas Eastern, WLA	10.720	10.69-10.80	10.69-10.75	359	30
Texas Eastern, ELA	11.020	10.95-11.10	10.98-11.06	119	25
Texas Gas, zone SL	10.955	10.90-11.04	10.92-10.99	155	24
Transco, zone 2	10.770	10.59-10.90	10.69-10.85	156	26
Transco, zone 3	11.045	10.92-11.19	10.98-11.11	602	86
Trunkline, WLA	10.960	10.93-11.01	10.94-10.98	30	6
Trunkline, ELA	10.830	10.82-10.86	10.82-10.84	46	9
Oklahoma					
ANR, Okla.	8.920	8.85-9.05	8.87-8.97	39	8
CenterPoint, East	9.105	8.99-9.34	9.02-9.19	219	34
NGPL, Midcontinent	9.025	8.95-9.08	8.99-9.06	97	29
Oneok, Okla.	9.180	9.10-9.18	9.16-9.18	28	2
Panhandle, Tx.-Okla.	9.025	8.95-9.11	8.98-9.07	233	36
Southern Star, Tx.-Okla.-Kan.	8.985	8.87-9.05	8.94-9.03	118	15
New Mexico-San Juan Basin					
El Paso, Bondad	8.365	8.34-8.55	8.34-8.42	54	9
El Paso, San Juan Basin	8.525	8.30-8.85	8.39-8.66	232	37

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Gas Daily

Tuesday, September 13, 2005

Analysts: Katrina far more damaging than Ivan

KATRINA HITS HEDGE FUNDS story page 3

Hurricane Katrina caused far more damage to the offshore Gulf of Mexico producing region than last year's Hurricane Ivan, and it will be many months before the resulting loss of production is restored, Edward Kelly, head of North American Gas & Power at consulting firm Wood Mackenzie, cautioned Monday.

"Recovery will not be immediate," Kelly told Interchange Energy's LDC Forum outside Chicago. Supply challenges in the region existed prior to Katrina and "the storm came in the midst of that," he said.

Based on information collected since Katrina struck the Gulf Coast

(continued on page 7)

Gulf output slow to return; crews, boats lacking

Despite having remanned 87% of Gulf of Mexico platforms, gas companies returned less than 0.5% of production over the weekend, leaving 3.78 Bcf/day still curtailed due to Hurricane Ivan, the Minerals Management Service reported Monday.

About 84% of the shut-in gas, or 3.16 Bcf/day, was locked away in MMS's New Orleans district, which includes such well-known fields as Main Pass and West Delta. Producers in that district reported returning only 15,620 Mcf/day to production over the weekend.

Producers "are still having difficulty getting the information nailed

(continued on page 5)

Forest to sell Gulf assets, buy stake in Mariner

Forest Oil on Monday became the latest in a string of large exploration-and-production companies to exit the offshore Gulf of Mexico to concentrate on their onshore producing assets.

Under a complex deal involving Mariner Energy, a privately held former Enron affiliate, Forest will spin off its offshore Gulf operations into an entity that will then merge with a wholly owned subsidiary of Mariner.

Forest CEO Craig Clark said his Denver-based firm will become Mariner's majority shareholder, owning 58% of its stock. "We now have

(continued on page 4)

NYMEX settles just above $11; cash prices fall

THE MARKET

Pressured by mild weather across much of the West, the October NYMEX futures contract opened down 37.3 cents/MMBtu below Friday's close but failed to stay below the $11 support floor and eventually closed at $11.031, down 23.2 cents.

"Crude has dropped back down a bit. That's certainly helped a lot," a broker said, adding that a reduction in cooling demand in many regions also gave the market a bullish tenor. "Finally, summer is drawing to a close," he said.

Sources offered differing views of the impact of the latest post-

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.140

Trans. date: 9/12
Flow date(s): 9/13

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.715	8.60-8.93	8.63-8.80	388	66
Waha	8.810	8.60-8.96	8.72-8.90	462	69
Transwestern, Permian Basin	8.480	8.20-8.53	8.40-8.53	20	4
East Texas-North Louisiana Area					
Carthage Hub	9.195	9.10-9.40	9.12-9.27	150	19
NGPL, Texok zone	9.570	9.36-9.64	9.50-9.64	350	66
Texas Eastern, ETX	9.195	8.70-9.50	8.99-9.40	16	4
Texas Gas, zone 1	10.635	10.57-10.68	10.61-10.66	107	19
East-Houston-Katy					
Houston Ship Channel	9.355	9.15-10.52	9.15-9.70	422	44
Katy	9.340	9.10-9.60	9.21-9.47	352	28
South-Corpus Christi					
Agua Dulce Hub	9.465	9.25-9.58	9.38-9.55	165	16
NGPL, STX	9.510	9.45-9.60	9.47-9.55	214	37
Tennessee, zone 0	9.505	9.40-9.63	9.45-9.56	386	42
Texas Eastern, STX	9.450	9.30-9.75	9.34-9.56	240	44
Transco, zone 1	9.335	9.30-9.45	9.30-9.37	11	3
Louisiana-Onshore South					
ANR, La.	10.550	10.50-10.76	10.50-10.62	167	34
Columbia Gulf, La.	10.650	10.57-10.84	10.58-10.72	308	50
Columbia Gulf, mainline	10.735	10.69-10.92	10.69-10.79	77	19
Florida Gas, zone 1	10.720	9.60-10.90	10.39-10.90	70	6
Florida Gas, zone 2	11.010	10.84-11.27	10.90-11.12	94	11
Florida Gas, zone 3	11.560	11.05-11.80	11.37-11.75	297	11
Henry Hub	10.665	10.61-10.85	10.61-10.73	687	84
NGPL, La.	10.290	10.27-10.40	10.27-10.32	21	5
Southern Natural, La.	10.970	10.77-11.24	10.85-11.09	39	4
Tennessee, La., 500 Leg	10.875	10.80-11.00	10.82-10.93	129	20
Tennessee, La., 800 Leg	10.690	10.48-10.90	10.58-10.80	234	29
Texas Eastern, WLA	10.520	10.40-10.70	10.44-10.60	249	39
Texas Eastern, ELA	10.755	10.63-10.90	10.69-10.82	123	21
Texas Gas, zone SL	10.680	10.56-10.90	10.59-10.77	268	30
Transco, zone 2	10.665	10.55-10.82	10.60-10.73	132	21
Transco, zone 3	10.880	10.72-11.45	10.72-11.06	636	104
Trunkline, WLA	10.500	10.50-10.50	10.50-10.50	1	1
Trunkline, ELA	10.495	10.30-10.54	10.43-10.54	67	18
Oklahoma					
ANR, Okla.	8.785	8.70-8.90	8.73-8.84	30	8
CenterPoint, East	9.140	9.00-9.24	9.08-9.20	51	9
NGPL, Midcontinent	8.890	8.84-9.25	8.84-8.99	129	38
Oneok, Okla.	8.770	8.75-8.95	8.75-8.82	11	3
Panhandle, Tx.-Okla.	8.820	8.70-8.92	8.76-8.88	168	30
Southern Star, Tx.-Okla.-Kan.	8.800	8.80-8.80	8.80-8.80	6	1
New Mexico-San Juan Basin					
El Paso, Bondad	8.400	8.33-8.48	8.36-8.44	23	7
El Paso, San Juan Basin	8.445	8.05-8.52	8.33-8.52	257	44

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Gas Daily

Wednesday, September 14, 2005

Volatility draws new players to merchant sector

RANKINGS, page 7

The energy merchant sector continues to attract a new crop of players eager to take advantage of increased volatility in the natural gas market—particularly investment banks that bring deep pockets along with their expertise.

That paradigm shift is evident in *Gas Daily*'s marketer rankings for the second quarter of 2005, in which firms such as UBS and Merrill Lynch have replaced marketing giants such as Enron, Mirant and AEP.

"It's a continuing trend since the industry hit its low point," noted analyst Ben Schlesinger, president of Maryland-based consultancy Benjamin Schlesinger & Associates. "It's all part of the recovery—an

(continued on page 6)

Feds express 'great concern' about gas losses

Gulf of Mexico producers restored little of their shut-in gas production between Monday and Tuesday as key Bush administration officials began expressing concerns about the impact those lost volumes will have on prices this winter.

"The great concern is about natural gas," Energy Secretary Samuel Bodman told reporters in Louisiana on Tuesday morning as he surveyed the destruction caused by Hurricane Katrina. He cited growing uncertainty about the amount of damage to gas production platforms, gathering systems and processing plants in the region.

(continued on page 5)

NPC study calls gas resource base 'abundant'

The Potential Gas Committee on Tuesday slightly reduced its estimate of total U.S. gas reserves while stressing that new discoveries continue to outpace production. Even so, the American Gas Assn. lamented that too much of that gas remains off-limits to exploration and development.

In its biennial report, the PGC pegged domestic reserves as of Dec. 31 at 1,308 Tcf, down about 2.4 Tcf, or 0.2%, from year-end 2002. However, "these minor changes have been assessed even though approximately 38 Tcf of domestic natural gas has been produced in the

(continued on page 4)

NYMEX closes below $11, but cash prices rally

THE MARKET

The October NYMEX futures contract slid another 26.8 cents on Tuesday to settle at $10.763/MMBtu, marking the first time the front-month contract has closed below $11 since Hurricane Katrina hammered the Gulf Coast on Aug. 29.

Over the past three sessions, October gas has shed a total of 58.4 cents. "The market has cooled its heels, and appropriately so. It really got carried away with the big reaction to the hurricane," said a broker. "Immediately following Hurricane Katrina, the market incorporated all the bad news it could muster in a very short period of time."

Daily price survey ($/MMBtu)

NATIONAL AVERAGE PRICE: 10.210

Trans. date: 9/13
Flow date(s): 9/14

	Midpoint	Absolute	Common	Volume	Deals
Permian Basin Area					
El Paso, Permian Basin	8.815	8.65-9.11	8.70-8.93	635	106
Waha	8.795	8.60-9.35	8.61-8.98	715	95
Transwestern, Permian Basin	8.555	8.55-8.60	8.55-8.57	24	5
East Texas-North Louisiana Area					
Carthage Hub	9.245	9.18-9.59	9.18-9.35	79	12
NGPL, Texok zone	9.570	9.45-9.72	9.50-9.64	700	109
Texas Eastern, ETX	9.280	8.67-9.70	9.02-9.54	22	5
Texas Gas, zone 1	10.725	10.61-10.80	10.68-10.77	59	15
East-Houston-Katy					
Houston Ship Channel	9.295	9.12-10.10	9.12-9.54	401	46
Katy	9.425	9.15-9.80	9.26-9.59	233	30
South-Corpus Christi					
Agua Dulce Hub	9.505	9.15-9.64	9.38-9.63	132	11
NGPL, STX	9.415	9.20-9.69	9.29-9.54	206	26
Tennessee, zone 0	9.620	9.45-9.77	9.54-9.70	172	26
Texas Eastern, STX	9.515	9.37-9.80	9.41-9.62	234	45
Transco, zone 1	9.435	9.20-9.75	9.30-9.57	38	11
Louisiana-Onshore South					
ANR, La.	10.735	10.60-10.85	10.67-10.80	151	25
Columbia Gulf, La.	10.705	10.58-10.80	10.65-10.76	332	55
Columbia Gulf, mainline	10.840	10.78-10.92	10.80-10.88	144	30
Florida Gas, zone 1	11.055	10.70-11.50	10.85-11.26	22	3
Florida Gas, zone 2	11.300	11.00-12.40	11.00-11.65	84	8
Florida Gas, zone 3	12.275	11.28-13.00	11.84-12.71	228	14
Henry Hub	10.685	10.57-10.91	10.60-10.77	1111	142
NGPL, La.	10.405	10.25-10.44	10.36-10.44	16	7
Southern Natural, La.	11.010	10.85-11.15	10.93-11.09	65	6
Tennessee, La., 500 Leg	10.935	10.86-11.08	10.88-10.99	15	2
Tennessee, La., 800 Leg	10.760	10.58-10.88	10.68-10.84	335	43
Texas Eastern, WLA	10.590	10.50-10.78	10.52-10.66	287	47
Texas Eastern, ELA	10.905	10.75-11.00	10.84-10.97	107	17
Texas Gas, zone SL	10.750	10.57-10.95	10.65-10.85	225	25
Transco, zone 2	10.865	10.65-11.08	10.76-10.97	94	18
Transco, zone 3	11.100	10.77-11.37	10.95-11.25	806	126
Trunkline, WLA	10.705	10.60-10.72	10.67-10.72	15	4
Trunkline, ELA	10.650	10.45-10.73	10.58-10.72	92	19
Oklahoma					
ANR, Okla.	9.040	8.90-9.15	8.98-9.10	36	10
CenterPoint, East	9.230	9.15-9.38	9.17-9.29	68	11
NGPL, Midcontinent	9.120	9.05-9.18	9.09-9.15	115	27
Oneok, Okla.	9.125	9.10-9.19	9.10-9.15	19	5
Panhandle, Tx.-Okla.	9.115	9.00-9.18	9.07-9.16	108	24
Southern Star, Tx.-Okla.-Kan.	9.110	9.11-9.11	9.11-9.11	6	1
New Mexico-San Juan Basin					
El Paso, Bondad	8.540	8.39-8.73	8.45-8.63	44	8
El Paso, San Juan Basin	8.635	8.40-8.80	8.53-8.74	178	28

Manzanares Pipelines
Exhibit "C"

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006

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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undeprecistated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	SBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	RRR 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Actual Location Description	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Manzanares Compressors
Exhibit "C"

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1220									
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1256			(B)(4)						
1257			(B)(7)(e)						
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006 .0609 * 1.3
1277									
1278									
1279									
1280									
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1312			(B)(4)						
1313			(B)(7)(e)						
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1332									
1333									
1334									
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1336									
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1352									
1353									
1354									
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1356			(B)(4)						
1357									
1358			(B)(7)(e)						
1359									
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1361									
1362									
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1387									
1388									
1389									
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1391									
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1419			(B)(4)						
1420			(B)(7)(e)						
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1443									
1444									
1445									
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1462									
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1464			(B)(4)						
1465			(B)(7)(e)						
1466									
1467									
1468									
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1470									
1471									
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1473									
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1500									
1501									
1502									
1503									
1504									
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1517									
1518									
1519									
1520									
1521									
1522									
1523									
1524			(B)(4)						
1525			(B)(7)(e)						
1526									
1527									
1528									
1529									
1530									
1531									
1532									
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1557									
1558									
1559									
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1561									
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1586			(B)(4)						
1587			(B)(7)(e)						
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Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1612									
1613									
1614									
1615									
1616									
1617									
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1663									
1664									
1665									
1666									

(B)(4)
(B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1667									
1668									
1669									
1670									
1671									
1672									
1673									
1674									
1675									
1676									
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1692									
1693									
1694									
1695									
1696									
1697									
1698									
1699			(B)(4)						
1700									
1701									
1702			(B)(7)(e)						
1703									
1704									
1705									
1706									
1707									
1708									
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1720									
1721									
1722									
1723									

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	In Service Date	Net Book Value	Yearly Cost	Undepreciated Bal Beginning of Year	BBB 2006
1724									
1725									
1726									
1727									
1728									
1729									
1730									
1731									
1732									
1733									
1734									
1735			(B)(4)						
1736			(B)(7)(e)						
1737									
1738									
				#N/A Total		[redacted]	[redacted]	[redacted]	[redacted]
				Grand Total		[redacted]			

Manzanares Dehydrators
Exhibit "C"

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year	.0609 * 1.3
1	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	$		(B)(4) (B)(7)(e)	
2					$			
3					$			
4					$			
5					$			
6					$			
7					$			
8					$			
9					$			
10					$			
11					$			
12					$			
13					$			
14					$			
15					$			
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17					$			
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21					$			
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42					$			
43					$			
44					$			
45					$			
46					$			
47					$			
48					$			
49					$			
50					$			
51					$			
52					$			
53					$			
54					$			
55					$			
56					$			

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
57					$		
58					$		
59					$		
60					$		
					$		
61					$		
62					$		
63					$		
64					$		
65					$		
66					$		
67					$		
68					$		
69					$		
					$		
70					$		
71					$		
72					$		
73					$		
74					$		
					$		
75					$		
76					$		
77					$		
78					$		
79					$		
80					$		
81					$		
82				(B)(4) (B)(7)(e)	$		(B)(4) (B)(7)(e)
83					$		
					$		
84		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		$		
					$		
85					$		
86					$		
87					$		
88					$		
89					$		
					$		
90					$		
91					$		
92					$		
93					$		
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94					$		
95					$		
96					$		
97					$		
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99					$		
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100					$		
101					$		
102					$		
103					$		
					$		
104					$		
105					$		
106					$		
107					$		
108					$		
109					$		
110					$		
111					$		
112					$		

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
113					$		
114					$		
115					$		
116					$		
117					$		
118					$		
119					$		
120					$		
121					$		
122					$		
123					$		
124					$		
125					$		
126					$		
127					$		
128					$		
129					$		
130					$		
131					$		
132					$		
133					$		
134					$		
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147					$		
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154					$		
155					$		
156					$		
157					$		
158					$		
159					$		
160					$		
161					$		
162					$		
163					$		
164					$		
165					$		
166					$		
167					$		
168					$		
169					$		
170					$		
		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
171					$		
172					$		
					$		
173					$		
174					$		
175					$		
					$		
176					$		
177					$		
178					$		
179					$		
180					$		
181					$		
182					$		
183					$		
184					$		
185					$		
186					$		
187					$		
188					$		
189					$		
190					$		
191					$		
192					$		
193					$		
194					$		
195					$		
196					$		
197					$		
198					$		
199					$		
200	(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	$		(B)(4) (B)(7)(e)
201					$		
202					$		
203					$		
204					$		
205					$		
206					$		
207					$		
208					$		
209					$		
210					$		
211					$		
212					$		
213					$		
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216					$		
217					$		
218					$		
219					$		
220					$		
221					$		
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223					$		
224					$		
225					$		
226					$		
227					$		
228					$		
229					$		
230					$		
231					$		
232					$		
233					$		
234					$		

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BGB 2006 Year
235					$		
236					$		
237					$		
238					$		
239					$		
240					$		
241					$		
242					$		
243					$		
244					$		
245					$		
246					$		
247					$		
248					$		
249					$		
250					$		
251					$		
252					$		
253					$		
254					$		
255					$		
256					$		
257					$		
258					$		
259					$		
260					$		
261					$		
262					$		
263					$		
264					$		
265					$		
266					$		
267					$		
268					$		
269		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	$	(B)(4) (B)(7)(e)	
270					$		
271					$		
272					$		
273					$		
274					$		
275					$		
276					$		
277					$		
278					$		
279					$		
280					$		
281					$		
282					$		
283					$		
284					$		
285					$		
286					$		
287					$		
288					$		
289					$		
290					$		
291					$		
292					$		
293					$		
294					$		
295					$		
296					$		
297					$		
298					$		
299					$		
300					$		

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
301					$		
302					$		
303		=2			$		
304					$		
305					$		
306					$		
307					$		
308					$		
309					$		
310					$		
311					$		
312					$		
313					$		
314					$		
315					$		
316					$		
317					$		
318					$		
319					$		
320					$		
321					$		
322					$		
323					$		
324					$		
325					$		
326					$		
327					$		
328					$		
329					$		
330					$		
331					$		
332		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	$	(B)(4) (B)(7)(e)	
333					$		
334					$		
335					$		
336					$		
337					$		
338					$		
339					$		
340					$		
341					$		
342					$		
343					$		
344					$		
345					$		
346					$		
347					$		
348					$		
349					$		
350					$		
351					$		
352					$		
353					$		
354					$		
355					$		
356					$		
357					$		
358					$		
359					$		
360					$		
361					$		
362					$		
363					$		
364					$		
365					$		
366					$		

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
367					$		
368					$		
369					$		
370					$		
371					$		
372					$		
373					$		
374					$		
375					$		
376					$		
377					$		
378					$		
379					$		
380					$		
381					$		
382					$		
383					$		
384					$		
385					$		
386					$		
387					$		
388					$		
389					$		
390					$		
391					$		
392					$		
393					$		
394					$		
395					$		
396					$		
397					$		
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399					$		
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421					$		
422					$		
423					$		
424					$		
425					$		
426					$		
427					$		
428					$		
429					$		
430					$		
431					$		
432					$		

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
433					$		
434					$		
435					$		
436					$		
437					$		
438					$		
439					$		
440					$		
441					$		
442					$		
443					$		
444					$		
445					$		
446					$		
447					$		
448					$		
449					$		
450					$		
451					$		
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453					$		
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458					$		
459					$		
460					$		
461					$		
462					$		
463					$		
464					$		
465					$		
466					$		
467					$		
468					$		
469					$		
470					$		
471					$		
472					$		
473					$		
474					$		
475					$		
476					$		
477					$		
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486					$		
487					$		
488					$		
489					$		
490					$		
491					$		
492					$		
493					$		
494					$		
495					$		
496					$		
497					$		
498					$		

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Line	Asset Number	Asset Description	Retirement Unit	Legacy Location Description	Net Book Value	Yearly Costs	Undepreciated Bal Beginning of BBB 2006 Year
499					$		
500					$		
501					$		
502					$		
503					$		
504					$		
505					$		
506					$		
					$		
507					$		
					$		
508					$		
509					$		
510					$		
511					$		
512					$		
513					$		
514		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)		$		(B)(4) (B)(7)(e)
515					$		
516					$		
517					$		
518					$		
519					$		
520					$		
521					$		
522					$		
					$		
				Grand Total	$		

Maddux, Julia, TRD

From: Severson, Valdean H., TRD
Sent: Wednesday, July 08, 2009 6:27 PM
To: Williams, Mary; Inderbitzin, Sarah L; Bayani, Theresa Walsh; Gibbs Tschudy, Deborah
Cc: Ernest, Mike; Lougee, Jack R., TRD; Maddux, Julia, TRD
Subject: RE: Revised Manzanares Dear Reporter Letter

Thanks!

Thanks,
Valdean Severson
Oil and Gas Bureau Chief
New Mexico Taxation and Revenue Department
(505) 827-0953

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Wed 7/8/2009 2:03 PM
To: Severson, Valdean H., TRD; Inderbitzin, Sarah L; Bayani, Theresa Walsh; Gibbs Tschudy, Deborah
Cc: Ernest, Mike; Lougee, Jack R., TRD; Maddux, Julia, TRD
Subject: RE: Revised Manzanares Dear Reporter Letter

Will do - and will remove New Mexico altogether but agree you did most of the work.

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Wednesday, July 08, 2009 9:09 AM
To: Williams, Mary; Inderbitzin, Sarah L; Bayani, Theresa Walsh; Gibbs Tschudy, Deborah
Cc: Ernest, Mike; Lougee, Jack R., TRD; Maddux, Julia
Subject: FW: Revised Manzanares Dear Reporter Letter

To All:

Comment:

Please remove Jack Lougee's name and number from this Dear Payor letter. I feel all questions, concerns and arguments should be directed to the MMS.

Valdean

From: Lougee, Jack R., TRD
Sent: Monday, July 06, 2009 3:40 PM
To: Severson, Valdean H., TRD
Subject: FW: Revised Manzanares Dear Reporter Letter

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Monday, July 06, 2009 2:50 PM
To: Lougee, Jack R., TRD

Subject: Revised Manzanares Dear Reporter Letter

Jack

Here's the latest letter for the Manzanares gas system.

Mary Williams asked me to send a copy to Charlie Brown at Williams for his review.

Mike

<<Manzanares Determination Letter Rev 8.doc>>

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Maddux, Julia, TRD

From: Miller, Morris [Morris.Miller@Williams.com]
Sent: Wednesday, July 22, 2009 2:32 PM
To: Maddux, Julia, TRD
Subject: Expected 2014 Volumes by CompanyV02.xls

Julia

This is my workbook showing what each working interest owner should report by month. (I did not break it down by lease.)

If necessary, I'll correct our 2014 report this month but I'd like for you to evaluate that first.

Let me know what you think.

Thanks

Morris

This inbound email has been scanned by the MessageLabs Email Security System.

Maddux, Julia, TRD

Modified: Mon 1/26/2009 2:39 PM

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 1/5/2009

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o) subtotal/col (o) Total
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 Typical exp $	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(7)(e[B)(4)					(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)	

Prepared by Julie Meddux Date: 1/5/2009
Reviewed by: _____ Date: _____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 1/5/2009

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	col(o) subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)									(B)(4) (B)(7)(e)	
Subtotal Compressors										(B)(4) (B)(7)(e)					

Prepared by Julie Mertens Date: 1/5/2009
Reviewed by: ____ Date: ____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 1/5/2009

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)										(B)(4) (B)(7)(e)	

Prepared by Julia Maddux Date: 1/5/2009
Reviewed by: _____ Date:_____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 1/5/2009

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(o)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA) Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical exp $	subtotal/col (o) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)								(B)(4) (B)(7)(e)
Subtotal Dehydrators												(B)(4) (B)(7)(e)		

Allowed Costs

(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)		

Prepared by Julia Maddux Date: 1/5/2009
Reviewed by: _____ Date: _____
Workpaper: Manzanares Cost

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 1/5/2009

MANZANARES SYSTEM COSTS - 2006
Unbundling Percentage Calculation

Disallowed Costs

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Direct Depreciation Costs	Unknown Location Depreciation Costs	ROI	Unknown Location ROI	Total Yearly Operational Cost	Total Costs	Unbundling %	Fuel mcf/d	Unbundled Percentage for fuel col(e)
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Comp/Dehy				Dep/ROI by unit & location wp	Williams Asset Schedule $	Dep/ROI by unit & location wp	Dep/ROI by unit & location wp	Typical Mo Exp wp col(j)	(m+o)	col (p) subtotal/col(p) Total	Williams 2006 typical ave $	subtotal/col (p) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	(B)(4) (B)(7)(e)						(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)			
			(B)(4) (B)(7)(e)					(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)	
Subtotal Pipeline & Allowed Booster Compressors													(B)(4) (B)(7)(e)		
Grand Total															

Allowed Disallowed	Allowed Fuel Disallowed Fuel
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

Assumption. operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
(See typical monthly expense workpaper)
Where (O & M) = Operating & Maintainence
Where (G & A) = General & Administrative

(B)(4)
(B)(7)(e)

Prepared by Julia Maddux Date. 1/5/2009
Reviewed by: _____ Date. _____
Workpaper: Manzanares Cost

Maddux, Julia, TRD

From: Maddux, Julia, TRD
Sent: Thursday, September 18, 2008 9:10 AM
To: 'Charlie.Brown@Williams.com'
Cc: 'Williams, Mary'; 'Ernest, Mike'
Subject: Draft Manzanares System Costs

9-18-2008

Subject: Manzanares system unbundling percentages

Charlie,

We have completed a preliminary schedule of unbundling costs on the Manzanares. System based on the information provided by Williams. I am sending the schedule for you to review.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo Willams 2006 typical exp $	O & M/Mo Willams 2006 typical exp $	Total Yearly Operational Cost (h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
[redacted]		(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)			0
[redacted]									0
Subtotal Compressors							1,056,000	1,056,000	15,172,800

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
st Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Willams 2006 typical exp $	Willams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j
(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)	

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

New Mexico Oil & Gas Bureau
Federal Royalty Audit Program
Project
Project Number: 1138

MANZANARES SYSTEM COSTS - 2006

MONTHLY EXPENSES

Draft 12/30/08

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost
Williams Manzanares System Map	Trunk	Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	(h + i)*12
a	b	c	d	e	f	g	h	i	j

Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
	(B)(4) (B)(7)(e)									

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned Total	Total Yrly Exp
(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)				

Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned Total	Total Yearly Exp
(B)(4) (B)(7)(e)				

Dehydration

O&M	O/H Resv.	Fluid	Total	Total Yrly Exp
				(B)(4) (B)(7)(e)

Prepared by: Julia Maddux Date: 12/30/2008
Reviewed by: _____Date:
Work paper: Monthly Expenses

Capital Cost

(B)(4)
(B)(7)(e)

Capital Costs

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

$	(B)(4)
Less	(B)(7)(e)
Less	
Less	
Less	
	(B)(4)
	(B)(7)(e)

Grand Total

Allow + Now Allowed

Legacy Location Description	Yearly Costs
	(B)(4) (B)(7)(e)

Legacy Location Description	BBB 2006
	(B)(4) (B)(7)(e)
Grand Total	

CONFIDENTIAL

Williams Financial Data and Typical Equipment Expenses

(000's)	Operating Costs 2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4) (B)(7)(e)				

	O&M 2006	2005	2004	2003	2002
	(B)(4) (B)(7)(e)				

	G&A 2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4) (B)(7)(e)				

Typical Monthly Expenses [1]	Rental	O&M	Fuel
	(B)(4) (B)(7)(e)		

[1] 2006 typical expenses
[2] Typical dehydrator purchase price

O&M includes only Operating Expenses

Operating Costs includes O&M and other expenses

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l
(B)(4)													
Location (B)(7)(e)			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a			b	c	d	e	f	g	h	i	j	k	l

(B)(4)
(B)(7)(e)

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a			b	c	d	e	f	g	h	i	j	k	l
(B)(4)													

Location (B)(7)(e)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Willams 2006 typical exp $	Willams 2006 typical exp $	Willams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l

(B)(4)
(B)(7)(e)

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Willams 2006 typical exp	Williams 2006 typical exp	Willams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a			b	c	d	e	f	g	h	i	j	k	l

(B)(4)
(B)(7)(e)

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

(B)(4)

(B)(7)(e)

New Mexico Oil & Gas Bureau
105 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System #	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l

(B)(4)

Location			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
(B)(7)(e)													

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip Williams Manzanares Compressors/Dehydrators	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk						Willams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a			b	c	d	e	f	g	h	i	j	k	l

(B)(4)

Location (B)(7)(e)			Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost
[redacted]													[redacted]

(B)(4)
(B)(7)(e)

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New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System Map	Trunk Allowed (A) or Not Allowed (NA)	Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
(B)(4) a		b	c	d	e	f	g	h	i	j	k	l

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Location		Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Capital Cost

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

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Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a	b	c	d	e	f	g	h	i	j	k	l	m	n
# NA Compressor Total			Compressor										
(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
	h	n	d	e	f	g	h	i	j	k	l	m	n

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System >	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp $	Williams 2006 typical exp $	Williams 2006 typical exp $	$	(h*365+i) $	(f+g+j) $	Williams Asset Schedule $
a	b	c	d	e	f	g	h	i	j	k	l	m	n
[redacted]		(B)(4) (B)(7)(e)			[redacted]		(B)(4) (B)(7)(e)			[redacted]	[redacted]	[redacted]	(B)(4) (B)(7)(e)

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a	b	c	d	e	f	g	h	i	j	k	l	m	n
#N/A Dehy Total			Dehy										
[redacted]								[redacted]					[redacted]

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a	b	c	d	e	f	g	h	i	j	k	l	m	n
(B)(4) (B)(7)(e)								(B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)		

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a	b	c	d	e	f	g	h	i	j	k	l	m	n
[redacted]											[redacted]		[redacted]

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

MANZANARES SYSTEM COSTS

Location		Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Rental Costs/Mo	O & M/Mo	Fuel mcf/d	Index Price	Fuel Costs	Total Monthly Cost	Depreciation Costs
Williams Manzanares System I	Trunk		Williams Manzanares Compressors/Dehydrators				Williams 2006 typical exp	Williams 2006 typical exp	Williams 2006 typical exp		(h*365+i)	(f+g+j)	Williams Asset Schedule
							$	$	$	$	$	$	$
a	b	c	d	e	f	g	h	i	j	k	l	m	n
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San Juan Basin
Gathering Systems

System	Plant	Operator	Type Gas
[redacted]			

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April 18, 2008 - Menzgneres

Williams-
Charlie Brown
Chad Kuller - (4) Corner

MMS
Mike Ernest
Jim Moore
Mary Williams
Peter Criscal - Dept Justice

State Hill
Jack Langer
Judge Mallory

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4-18-08 Mangrove [illegible]

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5/13/04 - Telephone call w/ Mike Clark +
- Williams - Marguerite

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Manzaneres Cost Project # 1138

Cost Project

Pipeline

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New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/1/08

[redacted]

Location		Allowed (A) or Not Allowed (NA) reason	Capacity	Model / Manufacturer	Owner Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]	Trunk				[redacted]	[redacted] wp	[redacted]	[redacted] typical exp	(j+k)*12 + (n)	(h + i + l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2008 typical exp	col(s) subtotal/col (s) Total
					$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

[redacted]

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs. Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted] Trunk	Allowed (A[redacted] or Not Allowed (NA) retirn				[redacted]	Comp/Deby/PP RO[redacted] exp	[redacted] exp	[redacted] typical exp	[redacted]	(b + i +j)	col (m) subtotal/col (n) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
							$		$	$	$							$	

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New Mexico Oil & Gas Bureau
206 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

[redacted]

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]	Allowed (A) [redacted] or Not Allowed (NA) [redacted]				[redacted]	Comp/Delty/PP ROI wp	[redacted]	[redacted]	(j+k)*12 + (n)	(h + i + l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
					$		$	$	$							$	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t

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New Mexico Oil & Gas Bureau
285 Federal Royalty Audit Program
Coal Project
Project Number: 1138

Draft 11/10/08

[redacted]

Location	Allowed (A) or Not Allowed (NA) rebate	Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]						$	Comp/Delry/PP ROI wp	$	$ pical exp	$ (j+k)*12 + (n)	(h + l +i)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	$ col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
Subtotal Dehydrators							966,971	782,758	0	70,000	140,000	2,689,729	0.1011	5,277,215	7,866,945	0.1011		2,027	
Subtotal Pipeline & Allowed Booster Compressors																			
Grand Total																			

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Index Price = San Juan Inside FERC monthly average, than use the yearly average

0.7381

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME

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Where (G & A) = General & Admin
Where (TME) = Typical Monthly Expenses
From Williams Financial Data & Typical Expenses Sheet
All dehydrators a

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 111008

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Location	Trunk	Allowed (A) or Not Allowed (NA) reliors	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]		[redacted]				[redacted]	[redacted]	[redacted]	[redacted]	(j+k)*12 + (n)	(h + i +l)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s

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New Mexico Oil & Gas Bureau
ISS Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

[redacted]

Location	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted] Trunk	Allowed ([redacted]) or Not Allowed (NA) ratore				[redacted]	Comp/Dehyd/PP RO[redacted] wp	[redacted]	[redacted] typical exp	(j+k)*12 + (n)	(h + l +i)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
							$		$	$	$							$	

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New Mexico Oil & Gas Bureau
ISS Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

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Location	Allowed (A) or Not Allowed (NA)	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]						[redacted]	Comp/Dehy/PP ROI vrs	[redacted]	[redacted]	((j+k)*12 + (n)	(h + i +l)	col (m) subtotal/col (m) total	(B)(4) (B)(7)(e)	(m + o)	col (p) subtotal/col(p) Total		Williams 2006 typical exp	col(s) subtotal/col (s) Total
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

Draft 11/10/08

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Location	Allowed (A) or Not Allowed (NA) ratore	Type Equip	Capacity	Model / Manufacturer	Owner	Depreciation Costs	ROI	Rental Costs/Mo	O & M/Mo	Total Yearly Operational Cost	Total Known Costs, Depreciation & Operational	Allocation %	Allocated Other Operational	Total Costs	Unbundling %	Comments	Fuel mcf/d	Unbundled Percentage for fuel
[redacted]						[redacted]	Comp/Dehy/PP ROI wp	[redacted]	pical exp	(j+k)*12 + (n)	(h + l +f)	col (m) subtotal/col (m) total		(m + o)	col (p) subtotal/col(p) Total		Williams 2008 typical exp	col(s) subtotal/col (s) Total
						$		$	$	$							$	
a	b	c	d	e	f	u	h	i	j	k	l	m	n	o	p	q	r	s	t

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Subtotal Dehydrators

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Subtotal Pipeline & Allowed Booster Compressors
Grand Total

Index Price = San Juan Inside FERC monthly average, then use the yearly average

Assumption, operating costs = (O & M) + (G & A) + (TME)
Operating costs - TME = (O & M) + (G & A) + any other operating expense not included in TME
Where (O & M) = operating & maintenance
Where (G & A) = General & Administrative
Where (TME) = Typical Monthly Expense
From Williams Financial Data & Typical Expenses Sheet
All dehydrators are ow

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[redacted]

will be allowed to deduct

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New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: Manzanares System Request #6

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	April 29, 2010	January 30, 2009

Information Requested:

1. G & A, O & M for 2007
2. Changes in rental fees
3. Asset deletions or additions to depreciation schedules for the years 2003, 2004, 2005 and 2007.

Representative Requesting Data: Julia Maddux

Signature of Firm's Representative: _____

Date Received by 205 Representative: _____

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

The Trade Secrets Act, 18 U.S.C. Section 1905, and the Outer Continental Shelf Lands Act, 43 U.S.C. 1352(c), contain provisions to protect the confidentiality of information provided to the Federal Government. Department of Interior regulations implementing the requirements of the Freedom of Information Act are at 43 CFR § 2.11. The MMS/State audits are conducted in accordance with the professional standards of the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to use due professional care when conducting audits. These include the use of good judgment to ensure that all confidential information provided the Federal Government is protected. The MMS/State will, in all cases, protect the confidentiality of privileged or proprietary information provided to MMS/State auditors by Williams or their subsidiaries. Such information, however, will be subject to the provisions of the Freedom of Information Act.

Bayani, Theresa Walsh

From: Severson, Valdean H., TRD [valdean.severson@state.nm.us]
Sent: Thursday, September 24, 2009 12:00 PM
To: Williams, Mary; Bayani, Theresa Walsh
Cc: Lougee, Jack R., TRD
Subject: RE: Dear Reporter Letter

Great

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Thursday, September 24, 2009 11:58 AM
To: Severson, Valdean H., TRD; Bayani, Theresa Walsh
Cc: Lougee, Jack R., TRD
Subject: RE: Dear Reporter Letter

We have it back from the Solicitor and are preparing to send it - should be out next week depending on printing time.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD
Subject: Dear Reporter Letter

Theresa:

Any news on the mailing of the subject matter?

Thanks,
Valdean

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Thursday, October 08, 2009 11:51 AM
To: Gould, Greg
Cc: Goldblatt, Jennifer; Gibbs Tschudy, Deborah; Steward, Jim; Adamski, Richard; Prael, Robert; Sant, Donald
Subject: FW: Dear Reporter Letter - October 7, 2009

Attachments: Document.pdf

Document.pdf
(130 KB)

FYI-the Dear Reporter Letter regarding the bundled transportation fees (Manzanares Gas Transportation System in New Mexico) was signed and will be sent out to the operators. Thanks

-----Original Message-----
From: Joiner, Rosita
Sent: Thursday, October 08, 2009 10:26 AM
To: Bayani, Theresa Walsh
Subject: FW: Dear Reporter Letter - October 7, 2009

Letter as requested.

Rosie Joiner, Secretary
Western Audit & Compliance
(303) 231-3753
(303) 231-3744 (fax)

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United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

OCT 7 2009

RE: GUIDANCE ON VALUING GAS FOR ROYALTY PURPOSES – MANZANARES GAS SYSTEM, SAN JUAN BASIN, NEW MEXICO

Dear Reporter:

The Minerals Management Service (MMS) is providing the information below in response to several requests for guidance in situations where Federal royalty payors deduct transportation allowances from their royalty obligations for gas produced from Federal oil and gas leases. Williams Four Corners LLC (Williams) gathers, compresses, dehydrates, and treats gas via the Manzanares Gas System (MGS) and charges a bundled fee for these services. Williams does not identify which charges are allowed or not allowed as deductions from Federal royalties. This guidance provides a method to determine a percentage of these fees that MMS believes are deductible as transportation costs, rather than non-deductible marketable condition costs. This letter does not apply to you if your company is not currently transporting production through the MGS.

The MMS' regulations at 30 CFR § 206.151 (2008) define "marketable condition" as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." Those same regulations define a "transportation allowance" as "an allowance for the reasonable, actual costs of moving unprocessed gas, residue gas, or gas plant products to a point of sale or delivery off the lease, unit area, or communitized area, or away from a processing plant. The transportation allowance does not include gathering costs."

Non-deductible marketable condition costs under these definitions are interpreted to include the costs of compression and dehydration incurred after the gas leaves the Bureau of Land Management approved royalty measurement point to meet the requirements of the pipelines that serve the market into which the gas is typically sold. Once gas reaches marketable condition, if such services are required for transportation and exceed the services necessary to place the gas into marketable condition, the costs of further compression and dehydration are considered as transportation costs and allowed as a transportation allowance.

TAKE PRIDE IN AMERICA

To allocate costs that MMS considers allowable as a transportation deduction and those not deductible because they are costs associated with placing production into marketable condition, MMS followed the same methodology as that affirmed by the decision in *Devon Energy Corp. v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008). The MGS design contains more than 150 compression and dehydration units which bring the gas stream to marketable condition. The current design contains 11 compressors located after the gas reaches marketable condition and are necessary to transport gas to the end point of the MGS at the Milagro treatment plant. The costs associated with these 11 compressors are considered allowable costs for Federal transportation allowance purposes. The allowable transportation costs also include pipelines, overhead, and other costs, and the allowable costs for the fuel used by the compressors.

After determining the services that MMS considers as transportation, MMS performed a cost study of the MGS. The MMS then allocated those costs between equipment associated with deductible transportation costs, and equipment associated with non-deductible marketable condition costs, to derive the annual percentage of transportation and fuel costs that are allowable transportation deductions from Federal royalties (Annual Factors). The MMS will continue to track the Annual Factors from 2008 forward. The MMS will notify you when the Annual Factors change so you may update your transportation allowance deductions.

The Enclosure provides the Annual Factors and an example of how to apply the Annual Factors to your transportation costs with:

Part 1 presenting an allocation method where the bundled fees charged by the system operator are segregated into the allowable transportation deduction; and

Part 2 presenting an allocation method where the value of fuel used is determined in the transportation deduction.

The results of the transportation deductions calculated in the Enclosure from Part 1 and Part 2 are added together. The resulting value, a transportation allowance deduction, is subject to MMS regulations at 30 CFR § 206.156 (c).

This letter does not require that you perform any type of restructured accounting or require that you recalculate and pay royalties. It is merely guidance on how transportation allowances can be determined on the MGS. The guidance provided in this letter is not an appealable decision or order under 30 CFR Part 290 Subpart B. If MMS issues you an order at a later date based on this guidance, your appeal rights will be provided at that time.

Please note that the citations to regulations are for the current versions. If these change, please use the most recent applicable version. If you have questions regarding a specific situation involving movement of your gas production through the MGS, please request valuation and reporting advice from Audit and Compliance Management under 30 CFR § 206.152(g). Please send your request to:

Theresa Walsh Bayani
Minerals Management Service
P.O. Box 25165
MS 62200B
Denver, CO 80225-0165

FAX: (303) 231-3744

If you have any questions concerning this letter, please call Mr. James Morris at 1-800-634-6423 or (303) 231-3770.

Sincerely,

Theresa Walsh Bayani

Theresa Walsh Bayani, Program Director
Audit and Compliance Management

Enclosure

Part 1

Deductible Amount of Transportation Costs

Annual Factor:

2007	[redacted]	[redacted]	[redacted]	[redacted]
38.28%	41.13%	37.16%	33.60%	35.28%

				2007 Sample Calculation
Step 1	Use the Federal agreement or lease sales volume of gas including carbon dioxide (CO_2) as entered in field 15 of the Report of Sales and Royalty Remittance Form MMS-2014 (Form MMS-2014).		Sales Volume	10,000 Mcf
Step 2	Determine the treating, dehydration and other fees charged by Williams. This is the actual fee paid on a Mcf basis after all discounts, rebates and other adjustments to the fees are made.		Fee	$1.00 / Mcf
		Fee paid		$10,008.00
Step 3	Calculate the amount of the fee paid on the sales volume that is apportioned to the transportation allowance. The annual factor used in this step is found above, proceeding Step 1.		Annual Factor	38.28%
		Factored Amount		$3,828.00
Step 4	Calculate the percentage to apportion the fee determined in Step 3 to royalty bearing gas only. In this example, the gas volume contains 12% CO_2 and the delivery maximum limit in the transportation contract for CO_2 is 2% so 90% of the total gas sales volume is royalty bearing. The actual fees paid are on the total sales volume therefore 90% of fees are allowed.		Percentage	90%
Step 5	Calculate the value of the fee apportioned to the royalty bearing gas volume using the percentage calculated in Step 4. The resulting value is 90% of the value of $3,828.00 calculated in Step 3.	Royalty Bearing Amount		$3,445.20
Step 6	Calculate the value of the Part 1 transportation deduction by applying the lease or agreement royalty rate. In this example 12.5% is used.			12.5%
		Part 1 Transportation Deduction		$430.65

Part 2

Deductable Amount of Fuel Used

Annual Factor:

2007	[redacted]	[redacted]	[redacted]	[redacted]
9.73%	9.73%	9.73%	9.73%	9.73%

				2007 Sample Calculation
Step 1	Use the Federal agreement or lease sales volume of gas including carbon dioxide (CO_2) as entered in field 15 of Form MMS-2014.		Sales Volume	10,000 Mcf
Step 2	Determine the amount of the agreement or lease gas in MMBtus using Gas Btu as entered in field 16 of Form MMS-2014 times the Sales Volume entered in field 15.		Btu Factor	950 Btu / Mcf
		Gas MMBtu		9,500 MMBtu
Step 3	Determine the agreement or lease sales value of gas as entered in field 17 of Form MMS-2014.			
		Sales Value		$28,500.00
Step 4	Calculate the value of the total lease or agreement fuel used by applying the actual percentage charge of fuel used which is typically found in your contract and/or statement to the sales value determined in Step 3. In this example 7% of the sales value is used.		Fuel Percentage	7%
		Fuel Value		$1,995.00
Step 5	Calculate the value of the fuel used apportioned to the transportation deduction. The annual factor used in this step is found above, proceeding Step 1 which is 9.73% for all time periods.		Annual Factor	9.73%
		Factored Amount		$194.11
Step 6	Calculate the percentage to apportion the value of the fuel used as determined in Step 5 to royalty bearing gas only. See Part 1 Step 4 for the percentage to use in this step.		Percentage	90%
		Royalty Bearing Amount		$174.70
Step 7	Calculate the value of the Part 2 transportation deduction by applying the lease or agreement royalty rate. In this example 12.5% is used.			12.5%
		Part 2 Transportation Deduction		$21.84
		Sum of Part 1 and Part 2 Transportation Deductions		$452.49

Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Sunday, October 25, 2009 11:50 AM
To: Milano, Patrick
Subject: RE: Dear Reporter Letter - October 7, 2009

Thanks

-----Original Message-----
From: Milano, Patrick
Sent: Monday, October 19, 2009 6:10 PM
To: Johnson, Leslie K; Okoye, Christian O; Moore-Hudnall, Casandra; Petersen, Brenda R; Marshall, Angela T; Charlton, Van; Severson, Valdean; Lougee, Jack R., TRD; Martinez, Gilbert P.; Rodriguez, Nancy, TRD; Roller, Dennis R.; Hudson, Mark; Richard Ramirez; Goss, Inge-Lise; Robinson, Shelley; Dilsaver, Steve C.; Soderlind, Ellwood; Weekly, Derek A.; Huwaldt, Richard; Fisher, Terence; Owens, Valerie; Spotted Bear, Sharon R; Wong, David; Shirley, Perry; Cheromiah, Rowena; 'Claire Ware'; Anderson, Karen; Dockter, Lisa; Serawop, Winfred
Cc: Bayani, Theresa Walsh; Breithaupt, Deborah; Williams, Mary; Tyler, Paul; Glover, Sherri; Geissel, Roman; Finnegan, Todd; Conway, Karen; Mattingley, Beverly; Davis, Kathy; Phelps, Gus T; Atkinson, Mary Ann; Carolan, Greta; Summers, Dana; Sant, Donald
Subject: Dear Reporter Letter - October 7, 2009

Hello All,

FYI-Please share the attached letter with your staff as appropriate. The letter is posted on the MMS web-page and has been mailed to Industry. Thank you.

Patrick Milano, COR
Telephone: 303-231-3124
Fax: 303-231-3473

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 2:29 PM
To: McKeown, Matthew; KUNZ, JOHN
Cc: Williams, Mary
Subject: RE: FW: Dear Reporter Letter

Thank you, Matt.

I believe John will be sending your comments via email. Thanks again.

From: Matthew.McKeown@sol.doi.gov [mailto:Matthew.McKeown@sol.doi.gov]
Sent: Tuesday, September 22, 2009 2:21 PM
To: KUNZ, JOHN
Cc: Williams, Mary; Bayani, Theresa Walsh
Subject: Re: FW: Dear Reporter Letter

I just surnamed this.

Matt McKeown
Regional Solicitor
Rocky Mountain Region
Office of the Solicitor
U.S. Department of the Interior
303-231-5353 x. 555

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JOHN KUNZ/DNV/SOL/DOI

09/22/2009 12:47 PM

To "Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>
cc "Williams, Mary" <Mary.Williams@mms.gov>, Matthew J McKeown/HQ/SOL/DOI@SOL
Subject Re: FW: Dear Reporter Letter Link

I just put it on Matt's desk. Once he has reviewed and surnamed it, would you like us to fax you a copy of the surname package? Or, we could scan a copy of the package and e-mail it to you. Or, you could come and pick it up.

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

09/22/2009 08:22 AM

To JOHN KUNZ/DNV/SOL/DOI@SOL

cc "Williams, Mary" <Mary.Williams@mms.gov>

Subject FW: Dear Reporter Letter

John

Could I please get the status of the Dear Payor Letter review? STRAC is asking for the status so they can do their audit work. Thanks

---

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD
Subject: Dear Reporter Letter

Theresa:

Any news on the mailing of the subject matter?

Thanks,

Valdean

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Monday, August 31, 2009 11:38 AM
To: McKeown, Matthew; KUNZ, JOHN
Cc: Gibbs Tschudy, Deborah; Gould, Greg; Goldblatt, Jennifer; Williams, Mary
Subject: Re: FW: Dear Reporter Letter - Manzanares

Thank you.

Theresa Walsh Bayani
Minerals Management Service
Program Director, CAM
303 231-3701
Theresa.Bayani@mms.gov

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From: Matthew.McKeown@sol.doi.gov <Matthew.McKeown@sol.doi.gov>
To: Bayani, Theresa Walsh; KUNZ, JOHN
Cc: Gibbs Tschudy, Deborah; Gould, Greg; Goldblatt, Jennifer; Williams, Mary
Sent: Mon Aug 31 07:32:32 2009
Subject: Re: FW: Dear Reporter Letter - Manzanares

John Kunz is back today. So, I would like him to take the first look at this. Thanks.

Matt McKeown
Regional Solicitor
Rocky Mountain Region
Office of the Solicitor
U.S. Department of the Interior
303-231-5353 x. 555

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

08/27/2009 04:25 PM

To Matthew J McKeown/HQ/SOL/DOI@SOL

cc "Gould, Greg" <Greg.Gould@mms.gov>, "Gibbs Tschudy, Deborah" <Deborah.GibbsTschudy@mms.gov>, "Williams, Mary"

<Mary.Williams@mms.gov>, "Goldblatt, Jennifer"
<Jennifer.Goldblatt@mms.gov>
Subject FW: Dear Reporter Letter - Manzanares

Hi Matt

I am requesting that the Solicitor's office please review the attached Dear Reporter Letter (Letter) and Enclosure regarding guidance on how transportation allowances can be determined on the Manzanares Gas System in the San Juan Basin, New Mexico. The MMS followed the same methodology affirmed by the decision in the *Devon Energy Corp v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008).

The MMS plans on sending the Letter to payors/operators in New Mexico. The Letter is guidance and is not an appealable decision or order. I understand that the Solicitor's office has other priorities and appreciate if your office could review and provide any input as soon as possible. We anticipate that although the Letter is not appealable, payors will send in appeals anyway. In the future, MMS will be addressing this issue with many other gas transportation systems and the language in this Letter will be used for future guidance on the other systems. Please call me if you have any questions. Thank you.

<<Dear Reporter Letter - Manzanares.doc>> <<Manzanares Determination Letter Enclosure Rev B.xls>>

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:32 PM
To: KUNZ, JOHN; Williams, Mary
Cc: McKeown, Matthew; SANT, JACQUE
Subject: RE: FW: Dear Reporter Letter

Thank you for your comments and review. We will address any comments. Thanks again.

From: JOHN.KUNZ@sol.doi.gov [mailto:JOHN.KUNZ@sol.doi.gov]
Sent: Tuesday, September 22, 2009 3:12 PM
To: Williams, Mary
Cc: McKeown, Matthew; Bayani, Theresa Walsh; SANT, JACQUE
Subject: RE: FW: Dear Reporter Letter

Theresa and Mary: Jacque Sant will be e-mailing our surname package to you shortly (your draft letter plus our surname sheet with comments).

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Williams, Mary" <Mary.Williams@mms.gov>

09/22/2009 03:01 PM

To "Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>, Matthew J McKeown/HQ/SOL/DOI@SOL, JOHN KUNZ/DNV/SOL/DOI@SOL
cc
Subject RE: FW: Dear Reporter Letter

Thanks everyone we will make the changes and get this out as soon as possible.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 2:29 PM
To: McKeown, Matthew; KUNZ, JOHN
Cc: Williams, Mary
Subject: RE: FW: Dear Reporter Letter

Thank you, Matt.

I believe John will be sending your comments via email. Thanks again.

From: Matthew.McKeown@sol.doi.gov [mailto:Matthew.McKeown@sol.doi.gov]
Sent: Tuesday, September 22, 2009 2:21 PM
To: KUNZ, JOHN
Cc: Williams, Mary; Bayani, Theresa Walsh
Subject: Re: FW: Dear Reporter Letter

I just surnamed this.

Matt McKeown
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Rocky Mountain Region
Office of the Solicitor
U.S. Department of the Interior
303-231-5353 x. 555

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JOHN KUNZ/DNV/SOL/DOI

09/22/2009 12:47 PM

To "Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>
cc "Williams, Mary" <Mary.Williams@mms.gov>, Matthew J McKeown/HQ/SOL/DOI@SOL
Subject Re: FW: Dear Reporter Letter Link

I just put it on Matt's desk. Once he has reviewed and surnamed it, would you like us to fax you a copy of the surname package? Or, we could scan a copy of the package and e-mail it to you. Or, you could come and pick it up.

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

09/22/2009 08:22 AM

To JOHN KUNZ/DNV/SOL/DOI@SOL
cc "Williams, Mary" <Mary.Williams@mms.gov>
Subject FW: Dear Reporter Letter

John

Could I please get the status of the Dear Payor Letter review? STRAC is asking for the status so they can do their audit work. Thanks

---

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]

Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD
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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 1:09 PM
To: KUNZ, JOHN
Cc: Williams, Mary; McKeown, Matthew
Subject: RE: FW: Dear Reporter Letter

Thanks, John. Email is fine.

From: JOHN.KUNZ@sol.doi.gov [mailto:JOHN.KUNZ@sol.doi.gov]
Sent: Tuesday, September 22, 2009 12:53 PM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; McKeown, Matthew
Subject: Re: FW: Dear Reporter Letter

I just put it on Matt's desk. Once he has reviewed and surnamed it, would you like us to fax you a copy of the surname package? Or, we could scan a copy of the package and e-mail it to you. Or, you could come and pick it up.

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

09/22/2009 08:22 AM

To JOHN KUNZ/DNV/SOL/DOI@SOL
cc "Williams, Mary" <Mary.Williams@mms.gov>
Subject FW: Dear Reporter Letter

John

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From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD
Subject: Dear Reporter Letter

Theresa:

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Thursday, September 10, 2009 8:57 AM
To: KUNZ, JOHN
Cc: Williams, Mary
Subject: RE: FW: Dear payor letter

Thanks, John.

From: JOHN.KUNZ@sol.doi.gov [mailto:JOHN.KUNZ@sol.doi.gov]
Sent: Thursday, September 10, 2009 8:51 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary
Subject: Re: FW: Dear payor letter

Theresa: I'm sorry that you had to ask. I'll see if I can grab a second to review and get to Matt today or tomorrow. Hope everything is going well. John.

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

09/09/2009 04:29 PM

To JOHN KUNZ/DNV/SOL/DOI@SOL
cc "Williams, Mary" <Mary.Williams@mms.gov>
Subject FW: Dear payor letter

John

Any update on the Dear Payor Letter? The State of NM is asking about the status. Thanks!

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Wednesday, September 09, 2009 12:49 PM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Inderbitzin, Sarah L; Sant, Donald; Milano, Patrick; Tyler, Paul
Subject: Dear payor letter

Theresa:

Can you advised of the status related to the Dear Reporter letter and the NM Williams systems?

Thanks,

Valdean

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Wednesday, October 07, 2009 9:24 AM
To: Cobb, Lawrence; Steward, Jim
Cc: Adamski, Richard
Subject: RE: Dear Reporter letter

Thanks Larry! That's what I heard!

From: Cobb, Lawrence
Sent: Wednesday, October 07, 2009 8:00 AM
To: Steward, Jim; Bayani, Theresa Walsh; Gould, Greg
Cc: Gibbs Tschudy, Deborah; Goldblatt, Jennifer; Adamski, Richard
Subject: RE: Dear Reporter letter

Thanks Theresa - we have your back!

Larry Cobb
Manager, Royalty Valuation
Minerals Revenue Management
Minerals Management Service
303-231-3307

From: Steward, Jim
Sent: Tuesday, October 06, 2009 4:43 PM
To: Bayani, Theresa Walsh; Gould, Greg
Cc: Gibbs Tschudy, Deborah; Goldblatt, Jennifer; Adamski, Richard; Cobb, Lawrence
Subject: RE: Dear Reporter letter

Thank you Theresa.

Jim

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From: Bayani, Theresa Walsh
Sent: Tuesday, October 06, 2009 4:20 PM
To: Steward, Jim; Gould, Greg
Cc: Gibbs Tschudy, Deborah; Goldblatt, Jennifer
Subject: RE: Dear Reporter letter

FYI--I am ready to sign the Dear Reporter Letter regarding the Manzanares Gas System that provides reporters guidance on valuing gas in the San Juan Basin where Williams charges a bundled fee for various services. Jim Steward and I agreed that since ACM did the research and the Solicitor's office has approved the language in the Dear Reporter Letter that I should sign it. Under the new MRM organization, Asset Management will issue any future valuation guidance on other systems and will coordinate with ACM.

Greg,

A while back you indicated that you didn't need to review the letter so I will go ahead and move it through the process. Please let me know if you have any questions. Thank you.

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Thursday, September 10, 2009 9:03 AM
To: Severson, Valdean
Cc: Williams, Mary; Inderbitzin, Sarah L; Sant, Donald; Milano, Patrick; Tyler, Paul
Subject: RE: Dear payor letter

Hi Valdean.

I contacted the Solicitor's office yesterday and they are giving the document to the manager for the final review by the end of this week. I will keep you updated next week on the status. Thanks

---

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Wednesday, September 09, 2009 12:49 PM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Inderbitzin, Sarah L; Sant, Donald; Milano, Patrick; Tyler, Paul
Subject: Dear payor letter

Theresa:

Can you advised of the status related to the Dear Reporter letter and the NM Williams systems?

Thanks,
Valdean

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Thursday, September 24, 2009 1:17 PM
To: Williams, Mary
Subject: Re: Dear Reporter Letter

Thanks

Theresa Walsh Bayani
Minerals Management Service
Program Director, CAM
303 231-3701
Theresa.Bayani@mms.gov

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From: Williams, Mary
To: Severson, Valdean; Bayani, Theresa Walsh
Cc: Lougee, Jack R., TRD <jack.lougee@state.nm.us>
Sent: Thu Sep 24 11:57:31 2009
Subject: RE: Dear Reporter Letter

We have it back from the Solicitor and are preparing to send it - should be out next week depending on printing time.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD

Subject: Dear Reporter Letter

Theresa:

Any news on the mailing of the subject matter?

Thanks,
Valdean

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Bayani, Theresa Walsh

From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:40 PM
To: Williams, Mary
Cc: Ernest, Mike
Subject: RE: FROM JOHN KUNZ:

Ok thanks

From: Williams, Mary
Sent: Tuesday, September 22, 2009 3:39 PM
To: Bayani, Theresa Walsh
Cc: Ernest, Mike
Subject: RE: FROM JOHN KUNZ:

They really are lined since this is in excel - we included data we used to calculate the numbers that add to the amount that is deductible. So not all the numbers/percentages etc, are added together- we can explain in person better. A company could use this to plug their numbers and come up with the sum if need be.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:34 PM
To: Williams, Mary
Subject: FW: FROM JOHN KUNZ:

Mary

Could you also please have someone line up the columns and numbers on the attachment? Thanks

---

From: SANT, JACQUE
Sent: Tuesday, September 22, 2009 3:10 PM
To: Bayani, Theresa Walsh; Williams, Mary
Cc: KUNZ, JOHN
Subject: FROM JOHN KUNZ:

Here is the surnamed document in the Dear Reporter letter. Please let me know if you have any questions. Thanks.

<< File: Dear Reporter letter.pdf >>

Jacque
303-231-5353, ext. 449
jacque.sant@sol.doi.gov

DOI - Stewardship for America With Integrity and Excellence

Rocky Mountain Region Surname Sheet

Originating Office / Bureau: MMS	Originating Office / Bureau Document ID #:
Date rec'd: 08/31/2009 **Date due:** ASAP	**SOL Division/Branch:** RMR/Royalties Section **Staff Attorney:** None **Assistant Regional Solicitor:** John Kunz **Regional Solicitor:** Matt McKeown
Type of Document: Draft Dear Reporter Letter	**Case Name / Subject:** Concerns deduction of transportation allowances.

Surnamed by:		Date
1. [No staff attorney review]		
2. John Kunz	John R. Kunz – Subject to the below comments	9/22/09
3. Matt McKeown	Subject to incorporation of Kunz comments	9/22/09
4.		

Summary of Document: Williams Four Corners LLC gathers, compresses, treats, and dehydrates gas via the Manzanares Gas System (MGS). Williams does not identify which charges are allowed or not allowed as deductions from Federal royalty obligations. (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) condition costs.

Staff Attorney Remarks (include SOL changes made; issues resolved or still to be resolved with originating office; etc.): (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e)

Reviewer Remarks:

- (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)

(B)(5)
(B)(7)(e)

(B)(5)

(B)(5)
(B)(7)(e)

(B)(5)

- This surname is also subject to the hand-written comments on the attached draft Dear Reporter letter.

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

The Minerals Management Service (MMS) is providing the information below in response to several requests for guidance in situations where Federal royalty payors deduct transportation allowances from their royalty obligations for gas produced from Federal oil and gas leases. Williams Four Corners LLC (Williams) gathers, compresses, dehydrates, and treats gas via the Manzanares Gas System (MGS) and charges a bundled fee for these services. Williams does not identify which charges are allowed or not allowed as deductions from Federal royalties. This guidance provides a method to determine a percentage of these fees that MMS believes are deductible as transportation costs, rather than non-deductible marketable condition costs. This letter does not apply to you if your company is not currently transporting production through the MGS.

The MMS' regulations at 30 CFR § 206.151 (2008) define "marketable condition" as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." Those same regulations define a "transportation allowance" as "an allowance for the reasonable, actual costs of moving unprocessed gas, residue gas, or gas plant products to a point of sale or delivery off the lease, unit area, or communitized area, or away from a processing plant. The transportation allowance does not include gathering costs." *Id.*

Non-deductible marketable condition costs under these definitions are interpreted to include the costs of compression and dehydration incurred after the gas leaves the Bureau of Land Management (BLM) approved royalty measurement point to meet the requirements of the pipelines that serve the market into which the gas is typically sold. (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e) (B)(5) (B)(7)(e)

To allocate costs that MMS considers allowable as a transportation deduction and those not deductible because they are costs associated with placing production into marketable condition, MMS followed the same methodology as that affirmed by the decision in *Devon Energy Corp. v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008). The MGS design contains more than 150

compression and dehydration units which bring the gas stream to marketable condition. The current design contains 11 compressors located after the gas reaches marketable condition and are necessary to transport gas to the end point of the MGS at the Milagro treatment plant. The costs associated with these 11 compressors are considered allowable costs for federal transportation allowance purposes. The allowable transportation costs also include pipelines, overhead, and other costs, and the allowable costs for the fuel used at the small number of allowable compressors.

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Part 1 presenting an allocation method where the bundled gathering, treating, dehydration and other fees charged by the system operator are segregated into the allowable transportation deduction; and

Part 2 presenting an allocation method where the value of gathering fuel used is determined in the total transportation allowance deduction.

The results of the transportation allowances calculated from Part 1 and Part 2 described above are added together and entered into Transportation Allowance Deduction; Box 20 of the Report of Sales and Royalty Remittance, Form MMS-2014.

This letter does not require that you perform any type of restructured accounting or require that you recalculate and pay royalties. It is merely guidance on how transportation allowances can be determined on the MGS. The guidance provided in this letter is not an appealable decision or order under 30 CFR Part 290 Subpart B. If MMS issues you an order at a later date based on this guidance, your appeal rights will be provided at that time.

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Please note that the citations to regulations are for the current versions. If these change, please use the most recent applicable version. If you have questions regarding a specific situation involving movement of your gas production through the MGS, please request valuation and reporting advice from Compliance and Asset Management (CAM) under 30 CFR § 206.152(g). Please send your request to:

Theresa Walsh Bayani
Minerals Management Service
P.O. Box 25165
MS 390B2
Denver, CO 80225-0165

FAX: (303) 231-3744

If you have any questions concerning this letter, please call Mr. Mike Ernest at 1-800-634-6423 or (303) 231-3747.

Sincerely,

Theresa Walsh Bayani, Program Director
Compliance and Asset Management

Enclosure

Enclosure

Part 1

Deductible Amount of Gathering, Treating, Dehydration and Other Fees

Annual Factor:

2007	2006	2005	2004	2003
38.28%	41.13%	37.16%	33.60%	35.28%

		2007 Sample Calculation
Step 1	Use the Federal agreement or lease sales volume of gas including carbon dioxide (CO_2) as entered in Box 15 of the Report of Sales and Royalty Remittance Form MMS-2014 (Form MMS-2014).	10,000 Mcf
Step 2	Determine the gathering, treating, dehydration and other fees charged by Williams. This is the actual fee paid on a Mcf basis after all discounts, rebates and other adjustments to the fees are made	$1.00 / Mcf **$10,000.00**
Step 3	Calculate the amount of the fee paid on the sales volume that is apportioned to the transportation allowance. The annual factor used in this step can be found at the top of Exhibit 1.	**38.28%** **$3,828.00**
Step 4	Calculate the percentage to apportion the fee determined in Step 3 to royalty bearing gas only. In this example, the gas volume contains 12% CO_2 and the delivery maximum limit in the transportation contract for CO_2 is 2% so 90% of the total gas sales volume is royalty bearing. The actual fees paid are on the total sales volume therefore 90% of the fees are allowed.	90%
Step 5	Calculate the value of the fee apportioned to the royalty bearing gas volume using the percentage calculated in Step 4. The resulting value is 90% of the value of $3,828.00 calculated in Step 3 which is $3,445.20.	**$3,445.20**
Step 6	Calculate the value of the Part 1 transportation deduction by applying the lease or agreement royalty rate. In the illustrative example 12.5% is used and the amount is $430.65.	12.5% **$430.65**

Part 2

Deductable Amount of Gathering Fuel Used

Annual Factor:

2007	2006	2005	2004	2003
9.73%	9.73%	9.73%	9.73%	9.73%

		2007 Sample Calculation
Step 1	Use the Federal agreement or lease sales volume of gas including carbon dioxide (CO_2) as entered in Box 15 of the Report of Sales and Royalty Remittance Form MMS-2014 (Form MMS-2014).	10,000 Mcf
Step 2	Determine the amount of the agreement or lease gas in MMBtus using Gas Btu as entered in Box 16 of Form MMS-2014 times the Sales Volume as entered in Box 15.	950 Btu/Mcf **9,500 MMBtu**
Step 3	Determine the agreement or lease sales value of gas as entered in Box 17 of Form MMS-2014.	$3.00 / MMBtu **$28,500.00**
Step 4	Calculate the value of the total lease or agreement fuel used by applying the actual percentage charge of fuel used (found in your contract and/or statement) to the sales value as found in Step 3.	7% **$1,995.00**
Step 5	Step 5 calculates the value of the fuel used apportioned to the transportation allowance. The factor used in this step is found at the top of table 2 which is 9.73% for all time periods. This results in a value of $194.11.	9.73% **$194.11**
Step 6	Calculate the percentage to apportion the value of the fuel used determined in Step 5 to royalty bearing gas only. See Part 1 Step 4 for the adjustments to use in this step. The result for this example is 90%.	90% **$174.70**
Step 7	Calculate the value of the Part 2 transportation deduction by applying the lease or agreement royalty rate. In the illustrative example 12.5% is used and the amount is $21.84.	12.5% **$21.84**

Ernest, Mike

From: Williams, Mary
Sent: Monday, May 05, 2008 8:17 AM
To: Riemer, Dan; Ernest, Mike
Subject: RE: Revised materials for RPC subcommittee meeting April 29, 2008

Would still probably require (B)(5) (B)(5) (B)(7)(e) (B)(7)(e) (B)(7)(e)

From: Riemer, Dan [mailto:dfriemer@marathonoil.com]
Sent: Friday, May 02, 2008 8:28 PM
To: Ernest, Mike
Cc: Williams, Mary
Subject: RE: Revised materials for RPC subcommittee meeting April 29, 2008

Mike - I did not open these docs prior to the meeting. wish I had because I would have had a better understanding about where MMS wants to go. I have thought a lot about the bundled cost issue and I think it is time that MMS embrace the IRS practice of denying a deduction if the payor is not willing (or able) to produce acceptable documentation to support the deduction. seems like it would be easier for MMS to provide guidance about what it considers adequate supporting documentation than chasing transporters and processors for actual cost data. dan

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Tuesday, April 29, 2008 9:34 AM
To: David Deal; Severson, Valdean; hkemp@state.wy.us; lcrothers@br-inc.com; militoe@api.org; Petersen, Brenda R; abremner@ipams.org; Riemer, Dan; Shirley, Perry; Ponder, Marvinette; Goss, Inge-Lise; omallema@bp.com; Westall, Karen; Wilkinson, Robert O; Dockter, Lisa; gmorby@chevron.com; Mary.pearce@conocophillips.com; Williams, Pamela; Malensek, Alison K; Williams, Mary
Cc: jack.lougee@state.nm.us; Dilsaver, Steve C.
Subject: Revised materials for RPC subcommittee meeting April 29, 2008

Attached are revised copies of documents for the RPC subcommittee meeting Tuesday April 29, 2008.

<<Unbundling Project Report Apr 08 rev2.doc>> <<Determination of Devon based allowances rev2.doc>> <<RPC Devon Questions and Schematic icons rev2.doc>>

Ernest, Mike

From: Wilkinson, Robert O [Robert.O.Wilkinson@conocophillips.com]
Sent: Tuesday, May 13, 2008 9:59 AM
To: Ernest, Mike
Subject: RE: Williams 2006 unbundled fees for 2006 to 1999
Attachments: Williams San Juan 2006-1999 no ref.xls

Mike - Has this been updated for 2007's split?

Thanks.

Bob Wilkinson
Phone (918) 661-4381
ConocoPhillips
1110-H POB
Bartlesville, OK 74004

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Thursday, June 28, 2007 4:00 PM
To: Wilkinson, Robert O
Subject: Williams 2006 unbundled fees for 2006 to 1999

Bob

Mary Williams asked that I send this spreadsheet with Williams Midstream's split of costs for their San Juan facilities.

Let me know if I can help you with anything.

Mike Ernest
Economist
FEDCAM
MMS/MRM

Ernest, Mike

From: Riemer, Dan [dfriemer@marathonoil.com]
Sent: Tuesday, May 13, 2008 7:45 PM
To: Christnacht, Peter
Cc: Williams, Mary; Ernest, Mike
Subject: RE: RPC Oil & Gas Valuation Subcommittee Cost Unbundling Summary (and proposed dates for next teleconference)

Peter - see times below that do not work. as for the one-pager, it sounds good from the perspective of someone like Dave that has never been subject to paying Federal royalties. however,as I pointed out in the meeting, unless a standard deduction is revenue neutral (less than or equal to what lessees would deduct based on reasonable actual costs) the standard deduction is dead on arrival. it does not matter how much information MMS may obtain from gatherers and processors, because at the end of the day, it matters not what the gatherer or processor's costs are, but what the lessees reasonable actual costs are. MMS can authorize a standard deduction so small that no one will use it, but what does that accomplish? Gross proceeds with reasonable actual deductions for transportation and processing is good policy. good policy can be improved, but should not be cast aside. dan

From: Christnacht, Peter [mailto:Peter.Christnacht@mms.gov]
Sent: Monday, May 12, 2008 3:10 PM
To: David Deal; Severson, Valdean; hkemp@state.wy.us; lcrothers@br-inc.com; militoe@api.org; Petersen, Brenda R; abremner@ipams.org; Riemer, Dan; Shirley, Perry; Ponder, Marvinette; Goss, Inge-Lise; omallema@bp.com; Westall, Karen; Wilkinson, Robert O; Dockter, Lisa; gmorby@chevron.com; Mary.a.pearce@conocophillips.com; Williams, Pamela; Malensek, Alison K; Williams, Mary
Cc: Ernest, Mike; jack.lougee@state.nm.us; Dilsaver, Steve C.
Subject: RPC Oil & Gas Valuation Subcommittee Cost Unbundling Summary (and proposed dates for next teleconference)

Hello All,

I spoke to Mary and Dave today and we wanted to send out a message to all of you about scheduling our next teleconference. I constructed a draft of our minutes from the last (4/29) meeting but the three of us agreed that since this meeting was considerably longer than our previous meetings, the chronological format I have used to record minutes in the past did not work well for this meeting; my draft is too long and needs to be better focused. I will work on getting the minutes in a more readable format but in the mean time we wanted to send out Dave's summary of the key issues we identified in our last meeting, and to float some dates & times for our next meeting by teleconference. We anticipate that our next meeting will be two hours or less.

These proposed dates & time windows for our meeting are:

Wed, May 28 -- 1 PM to 4PM Central time
Thur, May 29 -- 9 AM to 4PM Central time - not available

Tues, June 2 -- 9 AM to 4PM Central time
Wed, June 3 -- 1 PM to 4PM Central time - not available
Thur, June 4 -- 9 AM to 4PM Central time

Two requests:

- Look at the dates proposed for our next teleconference and please reply back to me by mid-day this Friday May 16 about your availability for those times. I need your feedback about times that won't work so I can try to select a time that works best for most. I will send out a meeting time based on the responses I receive by Friday noon.

- Please read the one page summary that Dave prepared and think about how we should move forward as a committee on the unbundling of costs. The file is attached to this message.

Thanks for your participation and input. We value your contribution to this effort.

<<Preliminary Thoughts on Standard Deduction Approach.doc>>

-Peter Christnacht-
MMS/PMI
Policy and Appeals Division
303 231-3651

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Ernest, Mike

From: Riemer, Dan [dfriemer@marathonoil.com]

Sent: Wednesday, June 18, 2008 1:19 PM

To: Christnacht, Peter; David Deal; Severson, Valdean; hkemp@state.wy.us; lcrothers@br-inc.com; militoe@api.org; Petersen, Brenda R; abremner@ipams.org; Shirley, Perry; Ponder, Marvinette; Goss, Inge-Lise; omallema@bp.com; Westall, Karen; Wilkinson, Robert O; Dockter, Lisa; gmorby@chevron.com; Mary.a.pearce@conocophillips.com; Williams, Pamela; Malensek, Alison K; Williams, Mary

Cc: Ernest, Mike; jack.lougee@state.nm.us; Dilsaver, Steve C.

Subject: RE: RPC Oil & Gas Valuation Subcommittee 6-5-08 teleconference Minutes

Peter - thanks for the quick turnaround. the only revision that I suggest is the spelling of Guy Otwell. dan

From: Christnacht, Peter [mailto:Peter.Christnacht@mms.gov]
Sent: Tuesday, June 17, 2008 11:56 AM
To: Christnacht, Peter; David Deal; Severson, Valdean; hkemp@state.wy.us; lcrothers@br-inc.com; militoe@api.org; Petersen, Brenda R; abremner@ipams.org; Riemer, Dan; Shirley, Perry; Ponder, Marvinette; Goss, Inge-Lise; omallema@bp.com; Westall, Karen; Wilkinson, Robert O; Dockter, Lisa; gmorby@chevron.com; Mary.a.pearce@conocophillips.com; Williams, Pamela; Malensek, Alison K; Williams, Mary
Cc: Ernest, Mike; jack.lougee@state.nm.us; Dilsaver, Steve C.
Subject: RPC Oil & Gas Valuation Subcommittee 6-5-08 teleconference Minutes

Hi All,

I've attached a draft of minutes from the June 5th teleconference for your review. If I missed anyone in the attendance listing, I apologize; please let me know. Feel free to provide comments and edits as you see the need.

We are now heading into the summer months and vacations will be on the calendar. Mary and I have overlapping vacations for the rest of June. She is out this week and I am out the next. If you want to contact either of us please be aware of our schedules.

As for the next subcommittee meeting, Mary, Dave, and I will touch base in early July and discuss timing and subject coverage. There are a few items that were not discussed from Dave's summary of topics that we used for the last meeting (see minutes) and some other items emerged that we will likely want to pursue. The discussion was helpful in identifying both concerns and challenges before us. Thanks to all who participated.

If you have any questions or concerns you wish to discuss, I will be in the office through Thursday this week. Hope each of you enjoying the transition from spring into summer.

<<6-5-08 Subcommittee teleconference minutes.doc>>

-Peter Christnacht-
MMS/PMI
Policy and Appeals Division
303 231-3651

Ernest, Mike

From: Riemer, Dan [dfriemer@marathonoil.com]
Sent: Wednesday, June 18, 2008 1:53 PM
To: dtdeal@cox.net
Cc: Christnacht, Peter; Williams, Mary; Ernest, Mike
Subject: Action Items

Dave et al - as promised in the June 5th meeting. dan

SAP Marketing Free Deductions (same 10 options for Gas and NGL):

1. Compression
2. Dehydration
3. Processing / Treating
4. Gathering
5. Transp / Multi Fee
6. Total Transp / Royalty
7. Fuel
8. Service Fee Mkt
9. Service Fee Acctg
10. Other

Definitions:

1. Marketable Condition
2. Boosting
3. List of Allowable Processing Costs
4. List of Non-Allowable Processing Costs because they are incidental to marketing
5. Beneficial Use Gas - i.e. lease operations, transportation operations, plant operations... etc.

Principles:

1. Gross Proceeds
2. Deductions for actual reasonable transportation costs and actual reasonable processing costs
3. One time obligation to place production in marketable condition
4. Lessee obligation to market at no cost to lessor.

Ernest, Mike

From: Ernest, Mike
Sent: Tuesday, September 22, 2009 3:19 PM
To: Williams, Mary
Subject: RE: FW: Dear Reporter Letter

I believe we have the mailing list ready to go. Blank labels are here and Rosie is ready to send them to be processed. I'll speak with Rosie tomorrow and let you know our timing.

Mike

From: Williams, Mary
Sent: Tuesday, September 22, 2009 3:16 PM
To: Ernest, Mike
Cc: Joiner, Rosita
Subject: FW: FW: Dear Reporter Letter

Mike we need to make this a priority to get out next week

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: JOHN.KUNZ@sol.doi.gov [mailto:JOHN.KUNZ@sol.doi.gov]
Sent: Tuesday, September 22, 2009 3:12 PM
To: Williams, Mary
Cc: McKeown, Matthew; Bayani, Theresa Walsh; SANT, JACQUE
Subject: RE: FW: Dear Reporter Letter

Theresa and Mary: Jacque Sant will be e-mailing our surname package to you shortly (your draft letter plus our surname sheet with comments).

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Williams, Mary" <Mary.Williams@mms.gov>

09/22/2009 03:01 PM

To "Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>, Matthew J McKeown/HQ/SOL/DOI@SOL, JOHN KUNZ/DNV/SOL/DOI@SOL

cc

Subject RE: FW: Dear Reporter Letter

Thanks everyone we will make the changes and get this out as soon as possible.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 2:29 PM
To: McKeown, Matthew; KUNZ, JOHN
Cc: Williams, Mary
Subject: RE: FW: Dear Reporter Letter

Thank you, Matt.

I believe John will be sending your comments via email. Thanks again.

From: Matthew.McKeown@sol.doi.gov [mailto:Matthew.McKeown@sol.doi.gov]
Sent: Tuesday, September 22, 2009 2:21 PM
To: KUNZ, JOHN
Cc: Williams, Mary; Bayani, Theresa Walsh
Subject: Re: FW: Dear Reporter Letter

I just surnamed this.

Matt McKeown
Regional Solicitor
Rocky Mountain Region
Office of the Solicitor
U.S. Department of the Interior
303-231-5353 x. 555

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JOHN KUNZ/DNV/SOL/DOI

09/22/2009 12:47 PM

To "Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>
cc "Williams, Mary" <Mary.Williams@mms.gov>, Matthew J McKeown/HQ/SOL/DOI@SOL
Subject Re: FW: Dear Reporter Letter Link

I just put it on Matt's desk. Once he has reviewed and surnamed it, would you like us to fax you a copy of the surname package? Or, we could scan a copy of the package and e-mail it to you. Or, you could come and pick it up.

John R. Kunz
Rocky Mountain Region
Assistant Regional Solicitor
Federal and Indian Royalties
755 Parfet Street, Suite 151
Lakewood, CO 80215
(303) 231-5353, X339

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"Bayani, Theresa Walsh" <Theresa.Bayani@mms.gov>

09/22/2009 08:22 AM

To JOHN KUNZ/DNV/SOL/DOI@SOL
cc "Williams, Mary" <Mary.Williams@mms.gov>
Subject FW: Dear Reporter Letter

John

Could I please get the status of the Dear Payor Letter review? STRAC is asking for the status so they can do their audit work.
Thanks

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, September 22, 2009 7:53 AM
To: Bayani, Theresa Walsh
Cc: Williams, Mary; Lougee, Jack R., TRD
Subject: Dear Reporter Letter

Theresa:

Any news on the mailing of the subject matter?

Thanks,

Valdean

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Confidentiality Notice: This e-mail,including all attachments is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review,use,disclosure or distribution is prohibited unless specifically provided under the New Mexico Inspection of Public Records Act. If you are not the intended recipient, please contact the sender and destroy all copies of this message.
-- This email has been scanned by the MessageLabs Email Security System.

Mary acknowledged that it is relevant, but less instructive since BLM still has to provide further guidance on which costs are to be allowed. The functional aspects of why gas is compressed and dehydrated drive deductibility from royalty.

(B)(5)
(B)(7)(e)

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(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Each processing plant and transportation system is different so that unbundling is a system-by-system proposition. This means that unbundling is resource intensive for both industry and MRM.

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

We believe there is a mandate to write a new gas valuation rule that will address cost bundling. At this point in time, we are looking at a September 2009 proposed rule. This means that the subcommittee will have the most impact if it aims for set of recommendations by September 2008.

Dave D. asked if there was any benefit to discuss unbundling as it pertains to offshore versus onshore.

Mary said there are some differences, but that it's still based on what the function of the technology that is applied to the production. Marketable condition still is the driver.

Dave D. asked if there were any other thoughts about the macro level.

Dan asked for further clarification from Mary: Is MMS's approach system dependent? Are we talking about publically available information?

Mary said that the approach is system dependent, but that it is more of an audit approach which would include nonpublic information.

Guy asked if there were producers involved. He also noted that system operators and service providers have a different approach to accounting.

Mary responded that the goal was to provide guidance to the producers. First, MMS will request information from producers. But producers don't always have the information so MMS will make requests of the producers.

Inge Lisa asked if the approach was to look at breaking out system specific costs to each producer transporting on each system so that you get a flat percent of marketable condition as it applies to transportation.

Mary said that she envisions a market based approach to charge deductions. These deductions will need to be adjusted as markets and or systems that serve those markets change.

Mike said that gas can go to different markets and that the balance can change from day to day or month to month.

Dan said that to understand costs, you also must look at contracts between service providers and the shippers. Contracts define terms (e.g. compression, capital costs, dehydration, actual reimbursable costs, and fuel charges). The best path forward in his view is to structure into future contracts costs with an eye to marketable condition. Otherwise we are subject to the qui tam whistleblower approach to defining what is deductable.

Mary said that we have looked to contracts and most don't provide enough information to separate out costs as nondeductible to place the production into marketable condition. MMS would not be comfortable to rely on contract without examining the facts of the situation.

Dave D. then asked the group to step back and identify what are the sticking points.

Lisa C. said that producers want certainty. If there are different contracts, how will different producers be treated the same?

Dan said that if there is an arm's-length contract, then producers should be able to use the costs from that contract.

Mary responded that the marketable condition requirement doesn't allow for that.

Eric asked if there is some common ground for marketable condition.

Mike said that for some gas, there is more than one market, so that one must look at the sales points along the system to define some of these costs.

Dan said that there is a disconnect between the situation in the Devon decision as applied to the Powder River Basin when similar conditions are applied to offshore systems.

Harold replied that stacked compression in the Powder River basin is different than in the offshore case. Part of this compression is necessary to bring the production up to pipeline requirements.

Pam said that Shell has been through five years of audits on its transportation systems. The analysis needs to be system specific to reflect the proper costs. Shell wants an agreement to define which costs are deductable on its systems.

Dan responded that this approach won't really shed much light on the next producer's situation.

Mary asked how you take the analysis of Shell's system and put it into a new gas rule.

Pam replied that you can't use it for that purpose.

Dan said that individual agreements would be nice but that's not an open process. Critics will point this out.

Mary reminded us that we can't have individual agreements. That approach is too much work. A preferable approach would be to have a series of standard deductions based on circumstances for that area or market.

Dave asked if the same approach would work for onshore and offshore.

Mike interjected that we can't get information for the systems.

Dan said that reimbursement for costs is based on what it actually does. BLM & MMS must designate facility measurement points.

Mary replied—at least unless we know otherwise.

Dave asked if there is a way for pipelines to give marketable condition designation to costs.

Dan added the idea would be designating types of treating services.

Mike offered that one company may have a better deal than another company and pipelines don't want to break out these costs.

Dan said that both arm's-length and non-arm's-length service contracts rely on actual costs.

Mary responded—is that realistic language in a contract?

Greg offered that there is a basic inconsistency here. The only way that there will be early certainty regarding costs is for MMS to declare the allowable cost for everyone to use.

Dan said that he doesn't want to book the costs twice. We need to have lessees step forward to provide information so that we can get the costs right.

Mike observed that we could get closer if we had lessees provide information to support requests for deductions based on allowable costs.

Bob asked how we could accomplish this.

Dan offered that we need to go back to time when costs are broken down. Dehydration needs to be a separate charge...

Bob pointed out that dehydration is treated differently for processed and non-processed gas.

Dan responded that treatment is different than processing.

Harold asked if gas is in marketable condition prior to the processing plant.

Dan answered that it depends upon the pipeline specifications—it's going to be pipeline specific.

Harold said that he is looking a national definition of costs.

Dan responded that pipeline requirements change. Orders to process can be imposed after a system has operated for some time. The challenge is to be consistent and useful in our approach.

Mary said that the time involved is still considerable. A standard deduction will address the administrative burden to MMS and industry.

Pam asked if there would be an itemized deduction as an alternative to a standard deduction.

Dan said it would have more merit in the non-arm's-length situation. If the method blocks out non-allowable costs, then it could work.

Mike interjected that operators would have a hard time with providing the needed information. The challenge will be to keep up with changes in the market.

Greg offered that if you have a super system, will you need a complex process to keep up? You can have two types of gas on a system; one will require processing but the other will not (e.g. coal bed methane on an otherwise wet gas system).

Lisa D. said that one option would be to do away with deductions. The Indian gas rule provides for a percentage of the price as a deduction. The deduction is capped.

Bob suggested why should we stop with allowances based on the postage stamp approach? Why not also use this approach to value the gas?

Lisa D. replied that she did not endorse index based pricing.

Bob said that if the standard deduction is too low then industry would support actual costs.

Dan said this would invite gaming of the choice. If the postage stamp is set a little low, then the convenience would offset the difference.

Guy said that the system-wide basis would allow some percentage to be deductable.

Mary said that she conceives of a system specific deduction that all would use.

Inge Lise suggested that there would be a family of deductions based on what happens to the gas. Standard costs to get well to pipeline gas pressure requirements. If you start close to that pressure, it will cost you less.

Dave observed the group was hitting an impasse.

Guy asked how exact does the deduction have to be? It should be reflective of the actual circumstances, but a one-size-fits-all approach is not realistic to accomplish this.

Dave summarized where there seemed to be general agreement:

- Attractiveness to the idea of standard or itemized deduction
- Deductions need to be lean enough to prevent gaming
- There is value associated with early certainty

Bob asked how marketable condition rule applies to processed gas.

Dave said this is an area for rulemaking. Some costs will be in and some will be out. It's unavoidable to engage in these issues. This discussion will even be needed to build up to get to the standard deduction. There will be a lot of comments.

Erik agreed that there will be a build up to cost categories and the best methodology.

Dave hoped that we could reach judgments on what is deductable.

Mary said that there appear to be too many opt-outs for shippers. This makes it too complex to administer.

Erik said that when you opt in to the method, you are choosing safe harbor for not having MMS come back and second guess the costs. That is part of the value of choosing this approach.

Dave suggested that it means reasonable certainty.

Peter offered that one option would be to allow companies to petition for an alternate agreement but that it would reimburse the costs to MMS for an alternate agreement process.

Dave suggested that we build on Bob's attempt to inventory of allowable costs.

Dan replied a definition for boosting would be a good start.

Harold asked if it would be based on the terms of a contract or a separate definition leading to a standardization of bundled costs. There is a divergence of purpose between the service provider/shipper contract and that of process of determining royalties.

Mary said that we envision going through each system to determine the allowable costs. In our San Juan Basin example, allowable components are broken out. We propose that we would provide guidance to payors based on our analysis of the system they are on.

Dave D. suggested that given the direction that has been offered, MMS might first put out an advanced notice of proposed rulemaking that would request comment on how to best accomplish changes in the allowances for gas royalties.

Mary said that market studies will get us to the options.

Dave D. asked if we have sufficient intellectual capital to accomplish this goal.

Mary said that much of what has surfaced here has already been discussed by MMS.

Dave D. said that we can get further along to defining the process by narrowing the discussion to several key areas that have surfaced here today.

Dave B. asked if the timing on the Devon Appeal is known and if that will affect our schedule?

Erik said he would check and get back to the group.

Dave D. asked what information would be most helpful to MMS. On the question of standard versus itemized deductions, where is the best place to get information? To design market studies, who do we engage?

Mary said that depends upon what the Asset Management is going to do.

Peter said that at this point the recommendation is to propose more or less a postage stamp approach realizing that it will be up to MRM management to approve this approach, and that we will still have to operate under the old rules until the regulations are changed.

Mary said that cost unbundling will be a challenge to meet in a timely fashion on all our systems.

Dave asked if it would be helpful to this group be part of this endeavor?

Mary said that there would concerns with proprietary data.

Harold asked if there is utility in examining data from tax entities.

Mike offered that there is difficulty in looking at 8K and 10K reports and unraveling the cost structures. All the assets go to one listing and it's difficult to break out costs like depreciation. He said that he is intrigued by Dan's idea and wants more clarity.

Mary pointed out another matter difficulty with that approach—reliance on these costs would lead to second guessing.

Dan asked which costs would we need to provide: transportation, processing? What costs are integral to processing? The Wexpro decision addresses beneficial use of royalty production on a lease. This is BLM's call. The relevant language is at or near the lease. Clear definitions will be useful. Standard deduction would embrace common rates. It would be useful to get beyond the use of actual costs methodologies. There are contracts where shippers have negotiated favorable rates. Producers will be averse to asking the pipeline company break out costs in these cases for fear of upsetting the applecart.

Harold suggested that companies should be made to provide their costs, otherwise no deductions should be allowed.

Dan offered that companies could either break out these costs or provide reasonable estimates. Dan then asked if there would be consistency between the states that perform the audits for MMS.

Mary said that it will take MMS and all the states working together.

Mike wonders whether this can be done at the producer level.

Dave D. asked can companies even get the unbundled data.

Dan said that this will be difficult.

Greg said it is often frustrating for the companies to get the right information to properly unbundle costs. It's not an exact science. He believes companies are trying to comply correctly, but they don't always have complete information. Sometimes they learn after the fact that costs should be differently allocated and then they have to amend their earlier reports. This works against early certainty of proper payment.

Dave B. said that the other problem is that service companies don't perform accounting based on the costs that are allowable for royalty purposes.

Mike said he believes that MMS would be required to do an analysis to defend its postage stamp approach in a rulemaking.

Dave D. said that ranges that are non arbitrary judgments don't mean that it is always correct. This means that a reasonable surrogate could be assembled. There can be more than one purpose for cost accounting.

Erik commented that we will still have to do this for either a standard or itemized list.

Dave added that some companies will enrich the data for you.

Mary said that we will need to keep up to date, but that we can still have a reasonable basis for costs.

Dave D. then asked the group to step back and determine where we go from here.

Dan suggested that we construct lists for allowable costs for both transportation and processing. There will be obvious ones and not so obvious ones that will comprise the components of allowances. There will need to be some level of detail to support these.

Dave D. then asked if it would be useful to make a listing of potential costs. Would an abstract diagram of t processing plant costs with a listing of deductable and non-deductable costs be of use?

Mike said that an exercise laying out what kinds of questions should be asked and how should they be asked would help to get the information from the pipelines and processing plants.

Mary suggested that we may need to look at several templates.

Mike suggested that we may be able to have a template with marketing costs perspective that outlines the deductable costs under different scenarios.

Dan asked if you can ever have processing be considered treatment for entry into a pipe.

Bob suggested that we come up with definitions where costs can and can't be deducted.

Dan related that under a processing agreement, a producer has the right to install a compressor. Later other producers got added to the field. The plant changed from an intake to an outtake. This changed the function of the initial investment.

Inge Lisa asked if MMS has analyzed Percent of Proceeds contracts as part of the unbundling efforts.

Mary said not yet.

Bob says it seems like what is being discussed with regards for definitions is different than what is occurring in audits.

Lisa C. said it would be useful to construct definitions for processed gas and that we would come up with a straw man.

Dave D. then observed that there would be a half dozen questions to be answered prior to writing the final rule. This group could come up with a list of starter questions to get us to standard deduction. The approach would be to break down the questions into smaller more manageable pieces.

Dan mentioned that Sarah's last slide doesn't apply to offshore. Perhaps we should look at her training slides and identify our concerns.

Mary offered that there are differences between offshore and onshore and that these differences will need clarification.

Dan D. asked how many times you can put production into marketable condition.

Dave suggested that we put together our list and the ambiguities will surface. But this is useful. Even if we can narrow these ambiguities we have made progress.

Dan said we need to have a definition of when you have met marketable condition.

Dave D. offered to summarize the questions and get them out to everyone as a draft. This will provide a framework to see where we are.

Greg said that it's tempting to get into specifics...

Mary said that there are other options available.

Dave D. said that identifying deductions and issues is part of the record. He suggested that we have another meeting by teleconference prior to Memorial Day. After speaking with Mary, we will float a few dates for consideration.

Before adjourning, we discussed the BBB bond rate issue outlined by Bob in his draft write up.

Mary agreed that the item could be considered as one component in the gas rulemaking.

The meeting ended shortly after 2:00 PM.

Ernest, Mike

From: Christnacht, Peter
Sent: Monday, May 12, 2008 2:10 PM
To: David Deal; Severson, Valdean; hkemp@state.wy.us; lcrothers@br-inc.com; militoe@api.org; Petersen, Brenda R; abremner@ipams.org; Riemer, Dan; Shirley, Perry; Ponder, Marvinette; Goss, Inge-Lise; omallema@bp.com; Westall, Karen; Wilkinson, Robert O; Dockter, Lisa; gmorby@chevron.com; Mary.a.pearce@conocophillips.com; Williams, Pamela; Malensek, Alison K; Williams, Mary
Cc: Ernest, Mike; jack.lougee@state.nm.us; Dilsaver, Steve C.
Subject: RPC Oil & Gas Valuation Subcommittee Cost Unbundling Summary (and proposed dates for next teleconference)

Attachments: Preliminary Thoughts on Standard Deduction Approach.doc

Hello All,

I spoke to Mary and Dave today and we wanted to send out a message to all of you about scheduling our next teleconference. I constructed a draft of our minutes from the last (4/29) meeting but the three of us agreed that since this meeting was considerably longer than our previous meetings, the chronological format I have used to record minutes in the past did not work well for this meeting; my draft is too long and needs to be better focused. I will work on getting the minutes in a more readable format but in the mean time we wanted to send out Dave's summary of the key issues we identified in our last meeting, and to float some dates & times for our next meeting by teleconference. We anticipate that our next meeting will be two hours or less.

These proposed dates & time windows for our meeting are:

Wed, May 28 -- 1 PM to 4PM Central time
Thur, May 29 -- 9 AM to 4PM Central time

Tues, June 2 -- 9 AM to 4PM Central time
Wed, June 3 -- 1 PM to 4PM Central time
Thur, June 4 -- 9 AM to 4PM Central time

Two requests:

- Look at the dates proposed for our next teleconference and please reply back to me by mid-day this Friday May 16 about your availability for those times. I need your feedback about times that won't work so I can try to select a time that works best for most. I will send out a meeting time based on the responses I receive by Friday noon.
- Please read the one page summary that Dave prepared and think about how we should move forward as a committee on the unbundling of costs. The file is attached to this message.

Thanks for your participation and input. We value your contribution to this effort.

Preliminary
houghts on Standa.

-Peter Christnacht-
MMS/PMI
Policy and Appeals Division
303 231-3651

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Royalty Policy Committee Oil and Gas Valuation Subcommittee
Preliminary Thoughts on Cost Bundling

At our April 29, 2008, meeting our subcommittee discussed some approaches toward handling cost bundling that might simplify the gas valuation process. In a nutshell, cost-bundling poses a problem for the MMS and royalty payors alike because it makes it difficult to sort out costs that are deductible (e.g., transportation, processing) from costs that are not deductible (e.g., satisfying marketable condition, marketing). Our discussion surfaced several approaches: shifting from benchmarks to indexing, applying a straight percentage to the market price, and allowing a standard deduction along the lines of the federal income tax.

Without dismissing the other approaches, most of our conversation centered on the standard deduction approach and it was agreed that some further discussion of this approach was merited. Set forth below is a simple description of the approach, identifying for discussion purposes some questions that would need to be addressed.

Basic Concept
As conceived, a standard deduction approach, sometimes referred to as a "postage stamp" approach, would mirror the IRS's use of a standard deduction for federal income tax purposes. The MMS would prescribe by regulation an allowable deduction which a royalty payor could employ and the royalty payor could use this standard deduction to deduct allowable transportation or processing costs. However, like the federal income tax model, if the royalty payor believed the standard deduction did not reflect particular circumstances, the royalty payor could elect to itemize actual costs.

Preliminary Questions
If a standard deduction approach were adopted, several core questions would need to be addressed:

1. Is the standard deduction mandatory or could a royalty payor opt instead to itemized actual costs? To date, no one in our Subcommittee discussions has suggested that the opt-out be foreclosed.

2. Would the standard deduction be established on an area wide or system basis?

3. What are the relevant factors for establishing a standard deduction? What specific information would be needed? How long would it take to obtain needed information? What information or information sources are reliable?

4. What is the "set point" for a standard deduction? It needs to be high enough a fair reflection of market costs yet low enough to prevent gaming.

5. Would separate standard deductions be needed for transportation and processing allowances? Can MMS proceed in establishing one without the other?

6. Once a standard deduction is established, how and how often and how would it be adjusted to reflect the market?

7. Would a standard deduction apply equally to non-arm's length and arm's length situations?

8. Would a standard deduction approach apply prospectively only?

D.T. Deal
January 5, 2010

Deleted: May 12, 2008

Ernest, Mike

From: Williams, Mary
Sent: Friday, May 16, 2008 3:50 PM
To: Goss, Inge-Lise; 'omallema@bp.com'; 'Westall, Karen'; 'Wilkinson, Robert O'; Dockter, Lisa; 'gmorby@chevron.com'; 'Mary.a.pearce@conocophillips.com'; Williams, Pamela; Malensek, Alison K; 'David Deal'; Severson, Valdean; 'hkemp@state.wy.us'; 'lcrothers@br-inc.com'; 'militoe@api.org'; Petersen, Brenda R; 'abremner@ipams.org'; 'Riemer, Dan'; Shirley, Perry; Ponder, Marvinette
Cc: Ernest, Mike; 'jack.lougee@state.nm.us'; Dilsaver, Steve C.
Subject: FW: Minutes from 4-29 meeting and teleconference date and time

Attachments: Meeting Notes 4-29-08 RPC O&G Valuation Subcommittee by topic.doc

Here are the draft minutes - feel free to suggest additions or deletions. It appears that Thursday June 5th works for most so please mark your calendars and I will send a meeting request. The meeting will start at 9:30 central time. Thanks.

Meeting Notes
4-29-08 RPC O&G ..

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Meeting Notes RPC Valuation Oil & Gas Subcommittee
April 29, 2008
9:30 AM -2:00 PM
Lakewood Office

In Attendance:
Dave Deal, Chair, Harold Kemp, Wyoming, Lisa Crothers, IPAA, Erik Milito, API, Dan Riemer, USO&GA, Inge Lisa Goss, Utah, Robert O. Wilkinson, COPAS, Greg Morby, Chevron, Dave Bond, Chevron, Pam Williams, Shell, Perry Shirley, Navajo Nation, Marvinette Ponder, COPAS Linda Gilmer, BP, Guy Atwell, BP, Mary Ann O'Malley, BP, Lisa Dockter, Southern Ute, Mary Williams, MMS, Peter Christnacht, MMS, Mike Ernest, MMS

Dave D. began the meeting at 9:30 AM and laid out his goals for the meeting. He urged the Subcommittee to be forward looking. The agenda set out the topics for discussion which centered on unbundling of gas service costs for transportation and processing. The hope is that consensus can be reached but if not, that we can at least frame the issues for MMS to consider and address in their effort to revise the federal gas valuation rule.

1. Marketable Condition Requirement

Mary began by outlining how the marketable condition requirements effects transportation and processing costs that are deductable from royalty value. There is no bright line that determines whether transportation or processing costs are deductable. Each transportation system is unique. Processing plant operations differ as well. How and where the production is sold also may influence whether production has been placed in marketable condition further complicating whether costs are deductable. The BP and Devon decisions provide the latest guidance for us to follow. Dan mentioned that the Wexpro decision dealing with beneficial use also has relevance.
Mary acknowledged that it is relevant, but less instructive since BLM still has to provide further guidance on which costs are to be allowed. The functional aspects of why gas is compressed and dehydrated drive deductibility from royalty.

The complexity and uniqueness of processing plants and transportation systems is different so that unbundling is a system-by-system proposition. This means that unbundling is resource intensive. There is a mandate to write a new gas valuation rule that will address cost bundling. At this point in time, we are looking at a September 2009 proposed rule. This means that the subcommittee will have the most impact if it aims for set of recommendations by September 2008.

2. **System by System Approach**

Dan asked whether MMS' approach is system dependent and if we are talking about publically available information.

Mary said that the approach is system dependent, but that it is more of an audit approach which would include nonpublic information. The materials in the binder provide the approach MRM is developing. So far MRM has looked at ~5 systems. The San Juan

Basin system is furthest along. MRM believes that it will be necessary to perform this approach to all systems that transport Federal gas, and to examine the function of costs through the marketable condition standard.

One of the challenges that confront MRM in analyzing individual transportation systems is that gas can go to different markets along the same pipeline system. The proportion of gas from a lease that is sold in one market may change from day to day or month to month. Mike said in these instances, one must look at the sales points along the system to define some of these costs, because in some cases what is marketable condition in one market may not be marketable condition in another market.

Dan said that system engineering effects whether certain costs are included in allowances. Pipeline requirements can change. Another situation involves pipeline segments that have been altered to reverse directions as production distribution changes. He cited an example of a processing agreement where producers have the right to install a compressor. Later other producers got added to the field. The plant changed from an intake to an outtake. The implication for a rulemaking process is that these kinds of developments need to be considered and there needs to be flexibility in the rule to account for these kinds of situations.

3. Contract Determined Allowances

The group considered the possibility of looking to contracts for determining costs. Dan said that to understand costs, you also must look at contracts between service providers and the shippers. Contracts define terms (e.g., compression, capital costs, dehydration, actual reimbursable costs, and fuel charges). The best path forward in his view is to structure into future contract cost breakouts with an eye to marketable condition.

Mary said that MMS has looked to contracts and most do not provide enough information to separate out costs as nondeductible to place the production into marketable condition. MMS would not be comfortable to rely on contracts without examining the facts of the situation. Dan said that if there is an arm's-length contract, then producers should be able to use the costs from that contract.

4. Get Service Providers to Change Accounting

a. Other sources of information

Guy asked if producers involved are providing information. He also noted that system operators and service providers have a different approach to accounting. Mary responded that the goal was to provide guidance to the producers. First, MMS will request information from producers. But producers don't always have the information so MMS will make requests of the service providers.

Dave D. asked can companies even get the unbundled data. Dan said that this will be difficult. Greg said it is often frustrating for the companies to get the right information to properly unbundle costs. Sometimes they learn after the fact that costs should be

differently allocated and then they have to amend their earlier reports. This works against early certainty of proper payment. Dan said that he doesn't want to book the costs twice. We need to have lessees step forward to provide information so that we can get the costs right.

Harold asked if gas is in marketable condition prior to the processing plant. Dan answered that it depends upon the pipeline specifications—it's going to be pipeline specific.

Dan asked which costs would we need to provide: transportation, processing? What costs are integral to processing? Clear definitions will be useful. Standard deduction would embrace common rates. It would be useful to get beyond the use of actual costs methodologies. There are contracts where shippers have negotiated favorable rates. Producers will be averse to asking the pipeline company break out costs in these cases for fear of upsetting the applecart.

Harold asked if there is utility in examining data from tax entities. Mike offered that there is difficulty in looking at 8K and 10K reports and unraveling the cost structures. All the assets go to one listing and it's difficult to break out costs like depreciation.

5. Individual Agreements/Consistency of Treatment

Lisa C. said that producers want certainty. If there are different contracts, how will different producers be treated the same?

Pam said that Shell has been through five years of audits on its transportation systems. The analysis needs to be system specific to reflect the proper costs. Shell wants an agreement to define which costs are deductable on its systems. Dan responded that this approach won't really shed much light on the next producer's situation. Mary asked how you take the analysis of Shell's system and put it into a new gas rule. Pam replied that you can't use it for that purpose. Individual agreements are not viable. A preferable approach would be to have a series of standard deductions based on circumstances for that area or market.

6. IRS / Postage Stamp Approach

One of the possible solutions to the considerable reporting burden faced by industry and MMS is for MMS to come up with a series of standard deductions for allowances. Mary said that the time involved to research and design this approach is still considerable. A standard deduction will address the administrative burden to MMS and industry.

Pam asked if there would be an itemized deduction as an alternative to a standard deduction. Dan said an itemized deduction would have more merit in the non-arm's-length situation. If the method blocks out non-allowable costs, then it could work.

Inge-Lise asked if the approach was to look at breaking out system specific costs to each producer transporting on each system so that you get a flat percent of marketable condition as it applies to transportation. Mary said that she envisions a market-based approach to charge deductions. These deductions will need to be adjusted as markets and or systems that serve those markets change.

Bob said that if the standard deduction is too low then industry would support actual costs. Dan said this would invite gaming of the choice. If the postage stamp is set a little low, then the convenience would offset the difference.

Erik said that when you opt in to the method, you are choosing safe harbor for not having MMS come back and second guess the costs. That is part of the value of choosing this approach. Guy said that the system-wide basis would allow some percentage to be deductable.

Mary said that she envisions a system specific deduction that all would use. She cautioned against too many opt-outs for shippers. This tends to make it too complex to administer.

Harold asked if it would be based on the terms of a contract or a separate definition leading to a standardization of bundled costs. There is a divergence of purpose between the service provider/shipper contract and that of process of determining royalties.

Mary said that we envision going through each system to determine the allowable costs. In our San Juan Basin example, allowable components are broken out. Harold suggested that companies should be made to provide their costs, otherwise no deductions should be allowed. Dan offered that companies could either break out these costs or provide reasonable estimates.

7. **Indian Rule Approach**

Lisa D. said that one option would be to do away with deductions. The Indian gas rule provides for a percentage of the price as a deduction. The deduction is capped.

Bob suggested why should we stop with allowances based on the postage stamp approach? Why not also use this approach to value the gas? Lisa D. replied that she did not endorse index based pricing.

8. **Create Inventory of Allowable Cost**

Dave suggested that we build on Bob's attempt to inventory allowable costs. Dan replied a definition for "boosting" would be a good start.

Greg offered that there is a basic inconsistency here. The only way that there will be early certainty regarding costs is for MMS to declare the allowable cost for everyone to use. Harold said that he is looking for a national definition of costs.

Greg offered that if you have a super system, will you need a complex process to keep up? You can have two types of gas on a system; one will require processing but the other will not (e.g. coal bed methane on an otherwise wet gas system). Guy asked how exact does the deduction have to be? It should be reflective of the actual circumstances, but a one-size-fits-all approach is not realistic to accomplish this.

Inge-Lise suggested that there would be a family of deductions based on what happens to the gas. Standard costs to get well to pipeline gas pressure requirements. If you start close to that pressure, it will cost you less.

Dan suggested that we construct lists for allowable costs for both transportation and processing. There will be obvious ones and not so obvious ones that will comprise the components of allowances. There will need to be some level of detail to support these. Dave D. then asked if it would be useful to make a listing of potential costs. Would an abstract diagram of processing plant costs with a listing of deductable and non-deductable costs be of use?

Mary suggested that we may need to look at several templates. Mike suggested that we may be able to have a template with marketing costs perspective that outlines the deductable costs under different scenarios.

Bob suggested that we come up with definitions where costs can and can't be deducted. Lisa C. said it would be useful to construct definitions for processed gas and that we would come up with a straw man.

Dave suggested that we put together our list and the ambiguities will surface. Even if we can narrow these ambiguities we have made progress. Dave D. offered to summarize the questions and get them out to everyone as a draft. This will provide a framework to see where we are.

9. Onshore/Offshore Differences

Dave D. asked if there was any benefit to discuss unbundling as it pertains to offshore versus onshore. Mary said there are some differences, but that it's still based on what the function of the technology that is applied to the production. Marketable condition still is the driver.

Harold replied that stacked compression in the Powder River basin is different than in the offshore case. Part of this compression is necessary to bring the production up to pipeline requirements. Dave suggested there may be a way for pipelines to give marketable condition designation to costs. Dan added the idea would be to designate types of treating services.

10. Revised Gas Rule

Dave D. suggested that this is an area for rulemaking team to address. This discussion will even be needed to build up to get to the standard deduction. There will be a lot of comments. Mary said that MMS will perform market studies to explore options.

On the question of standard versus itemized deductions, where is the best place to get information? To design market studies, who do we engage?

Peter said that at this point the recommendation from the asset management group is to propose more or less a postage stamp approach realizing that it will be up to MRM management to approve this, and that we will still have to operate under the old rules until the regulations are changed.

Dave D. said that cost ranges that are non-arbitrary judgments do not mean that they are always correct; it means that a reasonable surrogate could be assembled. There can be more than one purpose for cost accounting. Mary said that we will need to keep up to date, but that we can still have a reasonable basis for costs under this approach.

Dave D. then observed that there would be a half dozen questions to be answered prior to writing the final rule. This group could come up with a list of starter questions to get us to standard deduction. The approach would be to break down the questions into smaller more manageable pieces.

11. Other considerations

Inge-Lise asked if MMS has analyzed Percent of Proceeds contracts as part of the unbundling efforts. Mary replied, not yet.

Before adjourning, we discussed the BBB bond rate issue outlined by Bob in his draft write up (please refer to Bob's draft). Mary agreed that the item could be considered as one component in the gas rulemaking

Dave summarized where there seemed to be general agreement:

- Attractiveness to the idea of standard and itemized deduction
- Deductions need to be lean enough to prevent gaming
- There is value associated with early certainty

Action Items:

Dave D. said that identifying deductions and issues is part of the record. He agreed to assemble an inventory of questions to help frame the areas where the group identified interest in further exploring subjects further (this was sent out 5/12/08, prior to these minutes being distributed). He suggested that we have another meeting by teleconference prior to Memorial Day (the dates were proposed as part of the 5/12/08 communication).

The meeting ended shortly after 2:00 PM.

Ernest, Mike

From: Ernest, Mike
Sent: Friday, August 28, 2009 9:07 AM
To: Williams, Mary
Subject: RE: Dear Reporter Letter - Manzanares

My stance will be "No comment" to any inquiry inside or outside the building.

Mike

From: Williams, Mary
Sent: Friday, August 28, 2009 9:04 AM
To: Ernest, Mike
Subject: FW: Dear Reporter Letter - Manzanares

FYI - Theresa is going to let Valdean know so please do not say anything to NM.

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From: Williams, Mary
Sent: Friday, August 28, 2009 8:12 AM
To: Bayani, Theresa Walsh; McKeown, Matthew
Cc: Gould, Greg; Gibbs Tschudy, Deborah; Goldblatt, Jennifer
Subject: RE: Dear Reporter Letter - Manzanares

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From: Bayani, Theresa Walsh
Sent: Thursday, August 27, 2009 4:25 PM
To: McKeown, Matthew
Cc: Gould, Greg; Gibbs Tschudy, Deborah; Williams, Mary; Goldblatt, Jennifer
Subject: FW: Dear Reporter Letter - Manzanares

Hi Matt

I am requesting that the Solicitor's office please review the attached Dear Reporter Letter (Letter) and Enclosure regarding guidance on how transportation allowances can be determined on the Manzanares Gas System in the San Juan Basin, New Mexico. The MMS followed the same methodology affirmed by the decision in the *Devon Energy Corp v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008).

The MMS plans on sending the Letter to payors/operators in New Mexico. The Letter is guidance and is not an appealable decision or order. I understand that the Solicitor's office has other priorities and appreciate if your office could review and provide any input as soon as possible.

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this Letter will be used for future guidance on the other systems. Please call me if you have any questions. Thank you.

<< File: Dear Reporter Letter - Manzanares.doc >> << File: Manzanares Determination Letter Enclosure Rev B.xls >>

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Ernest, Mike

From: Ernest, Mike
Sent: Tuesday, September 22, 2009 3:28 PM
To: Williams, Mary
Subject: RE: FROM JOHN KUNZ:

Sounds good.

From: Williams, Mary
Sent: Tuesday, September 22, 2009 3:27 PM
To: Ernest, Mike
Subject: FW: FROM JOHN KUNZ:

Not sure they got the most current version - thought we had changed everything to Exhibit not enclosure? Let's discuss tomorrow.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: SANT, JACQUE
Sent: Tuesday, September 22, 2009 3:10 PM
To: Bayani, Theresa Walsh; Williams, Mary
Cc: KUNZ, JOHN
Subject: FROM JOHN KUNZ:

Here is the surnamed document in the Dear Reporter letter. Please let me know if you have any questions. Thanks.

<< File: Dear Reporter letter.pdf >>

Jacque
303-231-5353, ext. 449
jacque.sant@sol.doi.gov

DOI - Stewardship for America With Integrity and Excellence

Ernest, Mike

From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:40 PM
To: Williams, Mary
Cc: Ernest, Mike
Subject: RE: FROM JOHN KUNZ:

Ok thanks

From: Williams, Mary
Sent: Tuesday, September 22, 2009 3:39 PM
To: Bayani, Theresa Walsh
Cc: Ernest, Mike
Subject: RE: FROM JOHN KUNZ:

They really are lined since this is in excel - we included data we used to calculate the numbers that add to the amount that is deductible. So not all the numbers/percentages etc, are added together- we can explain in person better. A company could use this to plug their numbers and come up with the sum if need be.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:34 PM
To: Williams, Mary
Subject: FW: FROM JOHN KUNZ:

Mary

Could you also please have someone line up the columns and numbers on the attachment? Thanks

---

From: SANT, JACQUE
Sent: Tuesday, September 22, 2009 3:10 PM
To: Bayani, Theresa Walsh; Williams, Mary
Cc: KUNZ, JOHN
Subject: FROM JOHN KUNZ:

Here is the surnamed document in the Dear Reporter letter. Please let me know if you have any questions. Thanks.

<< File: Dear Reporter letter.pdf >>

Jacque
303-231-5353, ext. 449
jacque.sant@sol.doi.gov

DOI - Stewardship for America With Integrity and Excellence

Ernest, Mike

From: Ernest, Mike
Sent: Tuesday, September 22, 2009 3:48 PM
To: Williams, Mary
Subject: RE: FROM JOHN KUNZ:

Mary

The returned surnamed letter is the final copy we prepared. The Exhibit / Enclosure attachment is the final copy also. It looks like the title Exhibit was dropped as we condensed the attachment from three to two pages and Enclosure was added as we again condensed to one page.

We can discuss how to adjust tomorrow.

Mike

From: Williams, Mary
Sent: Tuesday, September 22, 2009 3:39 PM
To: Bayani, Theresa Walsh
Cc: Ernest, Mike
Subject: RE: FROM JOHN KUNZ:

They really are lined since this is in excel - we included data we used to calculate the numbers that add to the amount that is deductible. So not all the numbers/percentages etc, are added together- we can explain in person better. A company could use this to plug their numbers and come up with the sum if need be.

Mary A. Williams
Minerals Revenue Management
Minerals Management Service
(303) 231-3403

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From: Bayani, Theresa Walsh
Sent: Tuesday, September 22, 2009 3:34 PM
To: Williams, Mary
Subject: FW: FROM JOHN KUNZ:

Mary

Could you also please have someone line up the columns and numbers on the attachment? Thanks

---

From: SANT, JACQUE
Sent: Tuesday, September 22, 2009 3:10 PM
To: Bayani, Theresa Walsh; Williams, Mary
Cc: KUNZ, JOHN
Subject: FROM JOHN KUNZ:

Here is the surnamed document in the Dear Reporter letter. Please let me know if you have any questions. Thanks.

<< File: Dear Reporter letter.pdf >>

Jacque
303-231-5353, ext. 449
jacque.sant@sol.doi.gov

DOI - Stewardship for America With Integrity and Excellence

Ernest, Mike

From: Ernest, Mike
Sent: Wednesday, September 23, 2009 2:27 PM
To: Williams, Mary
Subject: Dear Payor corrected text

Attachments: Manzanares Determination Letter Enclosure Final.xls; Dear Reporter Letter - Manzanares Final.doc

Mary

The attached files have been corrected. Take a look and see if you would like any more additions.

Manzanares
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Dear Reporter
Letter - Manzan...

Mike

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RE: GUIDANCE ON VALUING GAS FOR ROYALTY PURPOSES THAT WILLIAMS FOUR CORNERS LLC TRANSPORTS THROUGH THE MANZANARES GAS SYSTEM IN THE SAN JUAN BASIN, NEW MEXICO

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Dear Reporter:

The Minerals Management Service (MMS) is providing the information below in response to several requests for guidance in situations where Federal royalty payors deduct transportation allowances from their royalty obligations for gas produced from Federal oil and gas leases. Williams Four Corners LLC (Williams) gathers, compresses, dehydrates, and treats gas via the Manzanares Gas System (MGS) and charges a bundled fee for these services. Williams does not identify which charges are allowed or not allowed as deductions from Federal royalties. This guidance provides a method to determine a percentage of these fees that MMS believes are deductible as transportation costs, rather than non-deductible marketable condition costs. This letter does not apply to you if your company is not currently transporting production through the MGS.

The MMS' regulations at 30 CFR § 206.151 (2008) define "marketable condition" as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." Those same regulations define a "transportation allowance" as "an allowance for the reasonable, actual costs of moving unprocessed gas, residue gas, or gas plant products to a point of sale or delivery off the lease, unit area, or communitized area, or away from a processing plant. The transportation allowance does not include gathering costs." *Id.*

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To allocate costs that MMS considers allowable as a transportation deduction and those not deductible because they are costs associated with placing production into marketable condition, MMS followed the same methodology as that affirmed by the decision in *Devon Energy Corp. v.*

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After determining the gathering, compressing, and dehydrating of gas we consider deductible as transportation, we performed a cost study of the MGS. We then allocated those costs between equipment associated with deductible transportation costs, and equipment associated with non-deductible marketable condition costs, to derive the annual percentage of transportation and fuel costs that are allowable transportation deductions from federal royalties (Annual Factors). The MMS will continue to track the Annual Factors from 2008 forward. The MMS will notify you when the Annual Factors change so you may update your transportation allowance deductions.

Enclosed is an example of how to apply the Annual Factors found in Enclosure 1 to your transportation costs with:

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Part 1 presenting an allocation method where the bundled gathering, treating, dehydration and other fees charged by the system operator are segregated into the allowable transportation deduction; and

Part 2 presenting an allocation method where the value of gathering fuel used is determined in the total transportation allowance deduction.

The results of the transportation allowances calculated from Part 1 and Part 2 described above are added together and entered into Transportation Allowance Deduction; Box 20 of the Report of Sales and Royalty Remittance, Form MMS-2014.

This letter does not require that you perform any type of restructured accounting or require that you recalculate and pay royalties. It is merely guidance on how transportation allowances can be determined on the MGS. The guidance provided in this letter is not an appealable decision or order under 30 CFR Part 290 Subpart B. If MMS issues you an order at a later date based on this guidance, your appeal rights will be provided at that time.

Please note that the citations to regulations are for the current versions. If these change, please use the most recent applicable version. If you have questions regarding a specific situation involving movement of your gas production through the MGS, please request valuation and reporting advice from Compliance and Asset Management (CAM) under 30 CFR § 206.152(g). Please send your request to:

Theresa Walsh Bayani
Minerals Management Service
P.O. Box 25165
MS 390B2
Denver, CO 80225-0165

FAX: (303) 231-3744

If you have any questions concerning this letter, please call Mr. James Morris at 1-800-634-6423 or (303) 231-3770.

Deleted: Mike Ernest

Deleted: 47

Sincerely,

Theresa Walsh Bayani, Program Director
Compliance and Asset Management

Ernest, Mike

From: Ernest, Mike
Sent: Wednesday, September 30, 2009 7:04 AM
To: Williams, Mary; Badaracco, Heidi
Subject: Revision to Dear Payor Enclosure

Attachments: Manzanares Determination Letter Enclosure Final Heidi.xls

See what you think about this revision.

Mike

Manzanares
)etermination Lette..

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Ernest, Mike

From: Severson, Valdean H., TRD [valdean.severson@state.nm.us]
Sent: Tuesday, October 21, 2008 8:08 AM
To: Williams, Mary
Cc: Ernest, Mike
Subject: FW: RE: our today's phone conversation

fyi

From: Lougee, Jack R., TRD
Sent: Monday, October 20, 2008 11:34 AM
To: Severson, Valdean H., TRD
Subject: FW: RE: our today's phone conversation

From: Sologub, Sergey, TRD
Sent: Monday, October 20, 2008 10:12 AM
To: Keeton, Geary
Cc: Lougee, Jack R., TRD
Subject: RE: our today's phone conversation

Geary,

You may find more information about the merger of Enterprise with GulfTerra, (B)(4) (B)(5) (B)(7)(e) on the following website: http://www.epplp.com/corpProfile/history.htm Here is the extract from this website that describes the relationships between Enterprise, El Paso and GulfTerra:

"Enterprise completed its merger with GulfTerra effective September 30, creating one of the largest publicly traded energy partnerships with an enterprise value of approximately $14 billion. In related transactions, Enterprise purchased approximately 13.8 million GulfTerra limited partner units for $500 million from El Paso Corporation and the remaining 57.8 million common units of GulfTerra were converted into approximately 104.5 million Enterprise common units based on an exchange rate of 1.81 Enterprise units for each GulfTerra unit. Enterprise also acquired nine natural gas processing plants and related facilities located in South Texas from El Paso Corporation for $156 million."

In addition regarding the question on how much has been charged by Enterprise to transport and process gas:

The gathering and dehydration charges are usually based on index price. The processing charges consists of fee per MMBtu plus retainage of a portion of the liquids. These charges vary widely by month. However just spot checking of audit files, we estimate approximately (B)(4) (B)(5) (B)(7)(e) elays in obtaining this data have virtually Our workplan also addresses this issue with another payor who represents (B)(4) (B)(5) (B)(7)(e) For these two payors, this equates to (B)(4) (B)(5) (B)(7)(e)

Sergey Sologub
(together with Jack Lougee)
Federal Royalty Auditor
Oil & Gas Bureau
State of New Mexico
ph. (505) 222-6619
fax (505) 222-6633

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Coalseam Special Project
Project Number: 1138

MANZANARES AGENDA

Attendees:	• New Mexico 205 Federal Royalty Audit Program – Jack Lougee, audit supervisor; Maryann Maberry, auditor; Lena Martinez, auditor • MMS – Mike Ernest, Virginia Temmer, Joy Alley, Damion Schulte • Williams – Dave Quintana, an Area Engineer, Morris Miller, Accounting Supervisor, MMS Reporting
Manzanares Gathering System:	• Gas properties at CDP, compression stations, plant inlet – pressure, water content • Compression – types and locations of compression stations, such as gas-fired, electric, etc. • Dehydration – types and locations of dehydration • Volumes – accounting for field loss, field use • Fee structure – components of fees, allocation for compression, dehydration, etc.
Milagro Plant:	• Gas properties at plant inlet and outlet • Compression – compression above inlet pressure • Dehydration • Other – CO_2 removal • Fee Structure – components of fees
Schematics, Invoices, Statements, Contacts:	• Map of system and plant schematic • Statements, Invoices – explanation of information provided by Williams to producers • Contacts – contacts for questions

Bulk File# _____

Preparer/Date: **MAM 7/12/2007**
Reviewer/Date:

Work Paper Number: **D1**

Manzanares System

PROCEDURE: The Manzanares Cost work paper for is set up by location on the system.

- Column (a) - identifies the equipment by location which coincides with the system map. The work paper separates costs into three sections
  1. Compressors – Non allowable cost for this system
  2. Dehydrators – Non allowable cost for this system
  3. Pipeline – Allowed costs
- Column (b) – identifies the location on trunk line on the Manzanares system map
- Column (c) – reason code NA represents costs not allowed, A represents allowed costs
- Columns (d through g) – identifies type of equipment, capacity and equipment model/manufacturer
- Column (h) – comes from the equipment asset schedule provided by Williams. Compressors, Dehydrators or Pipeline. It is the total yearly cost of depreciation and comes from column (n) of the respective asset schedule (see worksheet #2, subtotaled by location)
- Column (i) is the ROI – The total calculated ROI for the respective section was brought over from the ROI work paper.(See ROI work paper for each section, compressors, dehydrators and pipeline). The ROI work paper multiplied the total un-depreciated balance of each asset at the beginning of year by the BBB rate for 2006, then, multiplied that amount by 1.3 to arrive at the ROI. The total for compressors, dehydrators and pipeline was transferred to the Manzanares Cost work paper, column (i)

  30 CFR § 206.157 (v) (2006)states:
  The rate of return must be 1.3 times the industrial rate associated with Standard & Poor's BBB rating. *(prior to 2005 use rate of 1.0, from 2005 forward use 1.3, this applies only to transportation systems).* The BBB rate must be the monthly average rate as published in Standard & Poor's Bond Guide for the first month for which the allowance is applicable. The rate must be redetermined at the beginning of each subsequent calendar year.

- Column (j) – typical monthly rental costs of compressors provided by Williams. There were no rental costs

associated with dehydrators because Williams owned all of the dehydrators.

- Column (k) – typical monthly operation and maintenance expense provided by Williams
- Column (l) - fuel mcf/day for each piece of equipment provided by Williams
- Column (m) – San Juan Basin El Paso inside FERC yearly average index price. (see Index Price work paper). Obtained the monthly average index price, then calculated the yearly average and transferred that to column (m)
- Column (n) – Calculated the yearly fuel. Multiplied monthly fuel in column (l) times 365, then multiplied by yearly index price, column (m).
- Column (o) – The total yearly operational cost. First the monthly costs in columns (j and k) were added together, then multiplied by 12, the result was added to the yearly fuel cost in column (n).
- Column (p) - According to Williams they were unable to identify portions of the asset schedules to a particular piece of equipment because when the assets were added they were not identified as such. The identifiable costs were allocated to according to their percentage of the total. Column (p) represents the total known costs which include depreciation, ROI and yearly operational costs.
- Column (q) – allocation percentage of known costs. The subtotal for compressors, dehydrators and pipeline, column (p) was divided by the grand total of all known costs in column (p).
- Column (r) – represents any other operating expense not included in typical monthly expense = (B)(4) which was multiplied the subtotal of compressors, dehydrators and pipeline in column (q).
  Operating costs = (O & M) + (G & A) + (TME)
  Operating costs – TME = (O & M) + G & A) + any other operating expense not included in TME (B)(4)
  (B)(4)
  Where (O & M) = Operating & Maintenance expense
  Where (G & A) = General & Administrative expense
  Where (TME) = Typical Monthly expense
- Column (s) – Total costs column (o) plus column (r)
- Column (t) – is the calculated unbundling percentage. The subtotal of compressors, dehydrators and pipeline in column (s) divided by the grand total column (s) for compressors, dehydrators and pipeline.

Ernest, Mike

From: Miller, Morris (E&P) [Morris.Miller@Williams.com]
Sent: Friday, March 30, 2007 8:03 AM
To: Maberry, Maryann
Cc: jack.lougee@state.nm.us; Martinez, Lena M; Ernest, Mike; Fullmer, Landy (E&P); Suter-Levin, Donnie (E&P)
Subject: RE: Field Visit – Manzanares GGS April 12

Maryann

After reviewing your agenda we think we should schedule a conference call as soon as possible to discuss your visit to Manzanares facilities. What we want to discuss is whether this visit is an audit and not for education purposes as we originally thought. There are also safety concerns (clothing requirements to enter these facilities) and proprietary issues relating to some of the documents requested. Please include Mary Williams in the conference call.

Thanks

Morris
Office: 918-573-1158
Facsimilie: 918-573-5630

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Thursday, March 29, 2007 12:24 PM
To: Miller, Morris (E&P)
Cc: jack.lougee@state.nm.us; lena.martinez@state.nm.us; Ernest, Mike
Subject: RE: Field Visit -- Manzanares GGS April 12

Attached is a draft of the agenda for the field visit to the Manzanares System on April 12, 2007.

Maryann M
827-9818

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, March 23, 2007 3:07 PM
To: maberry, maryann, TRD
Cc: Lougee, Jack R., TRD; Suter-Levin, Donnie (E&P)
Subject: Field Visit -- Manzanares GGS April 12

Hi Maryann

Another request...

1. Please send us a list of names from MMS (or State) who will participate in this tour. Please include titles and reason for participating.
2. Please provide me with a list of questions you plan to ask. I realize many questions will arise during the tour but it would help if we had a sample of your questions. We want to make sure we have the right people (technical experts) on our side that will be able to answer your questions.

At present from Williams we will have:

- Dave Quintana, an Area Engineer from Williams Four Courners office (Bloomfield) – a pipeline engineer with experience on the Manzanares system.

- Donnie Suter-Levin, Manager, Tax, Regulatory and MMS Reporting
- Morris Miller, Accounting Supervisor, MMS Reporting
- Possibly, our new audit coordinator (he has not started so I'll withhold his name until April 9th), an accountant.

I think you'll find the scope of the Manzanares system to be huge! I saw part of it this week – they had an empty seat on the company plane and let me tag along! If you've never been to Bloomfield you will be impressed – I think 700 MMcfd flow though Milagro and that is a fraction of the gas going through the Bloomfield hubs!

I'm looking forward to a second (and third tour).

Also, the Best Western at Bloomfield is a nice hotel with a full breakfast – scrambled eggs, sausage (link or patty), bacon, biscuits, gravy, (all the essentials) plus the usual continental type foods. My room cost $85.00 including tax and is five minutes from our Bloomfield office.

Thanks in advance for the information.

Morris Miller CPA
Supervisor, Federal Royalties (MMS) Reporting
Office: 918-573-1158
Facsimilie: 918-573-5630
Email: morris.miller@williams.com

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Ernest, Mike

From: maberry, maryann, TRD [maryann.maberry@state.nm.us]
Sent: Wednesday, July 11, 2007 4:47 PM
To: charlie.brown@williams.com
Cc: Ernest, Mike; jack.lougee@state.nm.us; Martinez, Lena M; Miller, Morris
Subject: Manzanares Visit
Attachments: D - Manzanares Agenda.doc

Attached is a copy of the agenda for the Manzanares visit for July 16th and 17th. We plan to be there around 1:00pm to 1:30pm on Monday. We can then discuss the agenda and what we hope to accomplish with the tour on Tuesday.

We have reservations at the Best Western in Bloomfield, 415 S Bloomfield Blvd, 505-632-9100.

Please email directions to your office.

Thank you,

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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Attendees:
Jack Lougee Williams - Charlie Brown & Chad Bracher
Julia Maddux
Sergey Sologub

Teleconference with Williams - on Manzanares. Charlie Brown and Chad looked over original spreadsheet from 9/30/08 and suggested pulling the fuel out of the equation and treat fuel

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

They will look at the spreadsheet closer, Julia will have another meeting with them on Friday, November 14th @ 10:00 am. (B)(4)
the schedule.

Status and Update - Unbundling Project
May 12, 2008
1:00 – 2:00
Mile High Room

1. John Price and Sarah Inderbitzin classes on natural gas valuation and marketable condition

2. Bundled fees and marketable condition – Add the Devon Decision flow chart

3. Allowances and reasonable, actual costs

   a. Non Arms Length – Define actual costs via "laundry list"

   b. Arms Length – Define actual costs

4. 2014 reporting, netbacks and gross proceeds

Transportation Factors

5. Markets and "typical contracts"

6. ARMS, NARMS, APOP and POOL sales codes

wtd Average

7. Onshore and offshore considerations

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Pipe

10. More action, more people, more e-room

Ernest, Mike

To: Wilkinson, Robert O

Subject: RE: Williams splits

From: Wilkinson, Robert O [mailto:Robert.O.Wilkinson@conocophillips.com]
Sent: Tuesday, November 20, 2007 6:48 AM
To: Ernest, Mike
Subject: RE: Williams splits

Mike - That is the piece we are missing. We know the total amount of fuel, but Williams just gives us one number. Thus, we need a percentage split to allocate it between the field and plant.

You could ask them if they have some way to report the actual splits each month on their invoices to all the shippers, but I am not sure if their system could do that.

Bob

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Tuesday, November 20, 2007 7:42 AM
To: Wilkinson, Robert O
Subject: Williams splits

Bob

I'm meeting with Williams tomorrow. One topic on the table s the fuel splits between gathering and treating at the Milagro plant and gathering and processing at the Ignacio plant. Am I missing anything?

Mike

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→ D Sarah : Notes on Pictures

Mineral Leasing Act - OCS Act
Onshore OFFSHORE

Sale Unmarketable gas below Market "Price" -
Say 80¢ of 20¢ Cost to grow "MC"
Cost Proceeds $1.00

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

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(B)(7)(e)

Get case to New Mexico

Wexpro Case
Jeff Heath & Lease Use
ap Fuel

(B)(5)
(B)(7)(e)
(B)(7)(e)

(B)(5)
(B)(7)(e)
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New Faas

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(B)(7)(e)
(B)(5)
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Property Based - MRM Asset Management

(B)(5)
(B)(7)(e)
(B)(7)(e)
(B)(5)
(B)(7)(e)

San Juan Basin

Source
Williams Coal Seam Gas Royalty Trust 10-K

(B)(4)

(B)(4) per mcf
Fuel Reimbursement

Currently **per mcf**

per mcf

plus

Currently **per mcf**

(B)(4)

Acquired Listed in Schedule 2.1; Williams Partners LP - 8/K 6/14/2006

Manzanares Gas Pipeline Gathering System

(B)(4)

(B)(4) **Gas Pipeline Gathering System**

(B)(4)

(B)(4) **Gas Pipeline Gathering System**

(B)(4)

Comp

Ernest, Mike

From: Joiner, Rosita
Sent: Friday, April 18, 2008 10:07 AM
To: Ernest, Mike
Subject: Meeting Phone number

Left Mess w/

Mike,
Here is the information

866-804-0604

Leader Passcode: (B)(4) (B)(7)(e) (you)

Participant Passcode: (B)(4) (B)(7)(e) (others joining in would enter this number)

(B)(6)

(B)(7)(e)

(B)(6)

Jack & TULIA

Rosie Joiner
Secretary - FEDCAM
(303) 231-3753
(303) 231-3744 (fax)

(B)(6)

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Extra Copies

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release ("Settlement Agreement") is made between Williams Production Company LLC, ("Williams"), the United States Department of Justice ("DOJ"), and the United States Department of the Interior ("DOI"), through its agency the Minerals Management Service ("MMS"), hereinafter referred to individually as a "Party" or collectively as the "Parties".

RECITALS

A. Williams is the lessee of numerous Federal oil and gas leases that produce coalbed methane from the Fruitland Coal formation located in the San Juan Basin, New Mexico. Production from these leases is transported and treated in the Val Verde and Manzanares/Milagro systems. William's current San Juan Basin coalbed leases are listed in the attached Exhibit. Williams may also acquire additional leases, or leases not currently producing may begin to produce, or leases may become part of Federally approved unitization agreements or communitization agreements. All of these coalbed methane producing properties in the Fruitland Coal formation are the "Leases."

B. On October 30, 2001, MMS, based on an audit conducted by the State of New Mexico ("State"), issued to Williams an Order to Report and Pay Additional Royalties ("Order"). The Order: 1) directed Williams to pay (B)(4) additional royalties on coalbed methane produced from Williams' Leases located in the San Juan Basin for the period January 1, 1992, through December 31, 1996; 2) estimated additional royalties of (B)(4) were due for the period January 1, 1997, through March 31, 2001; and, 3) ordered Williams to perform a restructured accounting and to pay any additional royalties due for sales months after March 31, 2001. Williams timely appealed the Order to the MMS Director ("Appeal"). By decision dated October 22, 2004, the Assistant Secretary for Land and Minerals Management denied Williams' appeal ("Decision").

C. Williams sought judicial review of the Decision in *Williams Production Co. v. DOI*, No. CIV-05-0052 JH RLP (D.N.M. filed January 14, 2005) ("Litigation").

D. Williams, DOJ, and DOI desire to reach full and final settlement of the Order, the Appeal, and the Litigation for the Leases for the period January 1, 1992, through December 31, 2005, ("Settlement Period"), including principal and interest, except for the retroactive adjustments to production from the Leases for the Settlement Period discussed in Paragraph 3.

E. Williams, DOJ, and DOI also desire to reach an agreement on how to value any volume adjustments to production of coalbed methane produced from the Leases for production during the Settlement Period that occur after December 31, 2005.

AGREEMENT

THEREFORE, to resolve their disputes fairly and expeditiously and to avoid the expense of further litigation, and in consideration of the mutual promises made herein, the Parties, hereby agree as follows:

1. Provisions for Payment: Williams will pay MMS [redacted] (B)(4) by wire transfer in accordance with instructions provided by MMS within 10 business days of Williams' receipt of a (B)(7)(e) fully executed copy of this Settlement Agreement. If Williams does not pay the [redacted] (B)(4) MMS within 10 business days of Williams' receipt of a fully executed copy of this Settlement (B)(7)(e) Agreement, Williams will pay late payment charges on the untimely payment at the rate established in regulations at 30 CFR § 218.54, commencing on the eleventh business day after Williams receives a fully executed copy of the Settlement Agreement, until the payment of [redacted] (B)(4) is made.

2. [redacted]
(B)(7)(e)
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)

3. [redacted]
(B)(4)
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(B)(4)
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(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

4. No Further Proceedings: Each Party agrees that, other than to enforce the terms of this Settlement Agreement, it will not institute any legal or other proceedings to litigate, arbitrate, appeal, or attack in any fashion any demand or issue described herein and covered by this Settlement Agreement.

5. Reporting Requirements and Record Retention: Williams shall have no obligation to submit or revise Reports of Royalty and Remittance Advice with respect to the payment referenced in Paragraph 1, or any lump-sum payment made under Paragraph 2. Subject to the (B)(4) requirement to retain records in 30 U.S.C. § 1713(b), Williams is (B)(4) (B)(7)(e) for the Litigation covered by this Settlement Agreement. (B)(7)(e)

6. General Mutual Release From Liability: The DOI hereby releases and forever discharges Williams together with all officers, directors and employees of Williams from

(B)(4)
(B)(7)(e)

7. Dismissal of the Litigation: Within ten (10) business days from the date that MMS receives the payment referenced in Paragraph 1 of this Settlement Agreement, the Parties will cause their respective counsel of record to file a stipulated motion to dismiss the Litigation with prejudice, each Party to pay its own costs and attorney fees.

8. No Admission of Liability: The Parties agree that nothing contained herein, and no actions taken by any Party hereto with regard to this Settlement Agreement shall be construed as an admission by any Party of liability as to any of the matters settled. No action taken by any Party in effectuating this Settlement Agreement may be used in any future or pending demand, administrative proceeding, litigation, or similar action involving any of the Parties, as an admission of liability in any respect.

9. Binding Release: The releases contained herein shall bind and inure to the benefit of the principals, agents, employees, related or affiliated entities, representatives, successors, and assigns of the Parties.

10. Authority: The Parties represent that the person executing this Settlement Agreement on each Party's behalf has been duly authorized by all necessary and appropriate action to enter into this Settlement Agreement.

11. Entire Agreement and Modification: This Settlement Agreement is the entire agreement among the Parties, and no representation, warranties, or other statements or promises have been made by any Party to any other Party in connection with this Settlement Agreement. This Settlement Agreement may be amended or modified only by written agreement, executed by an authorized representative of each Party.

12. No Precedent Setting Value: It is specifically understood and agreed that this Settlement Agreement is executed for the sole purpose of settling the issues described herein. No Party shall be deemed to have approved, accepted, or consented to any concept, method, theory, principle, or statutory, regulatory or contractual interpretation underlying or supposedly underlying, any of the matters agreed to herein or raised in connection with the issues settled herein. This Settlement Agreement shall have no precedent setting value and shall not be binding on any Party as to any issues, leases, or any time periods, other than those specifically addressed herein.

13. Fraud Concealment or Misrepresentation: Nothing herein shall ever prevent any Party from *asserting and reopening any claim against* another Party as to the royalty computations and payments which are the subject of this Settlement Agreement for reasons of fraud, malfeasance, concealment, or misrepresentation of material fact. The Parties agree that this Settlement Agreement specifically excludes any disputes or claims arising under the False Claims Act, 31 U.S.C. § 3729-3733. However, it is expressly understood that Williams denies any liability under the False Claims Act.

14. Legal Fees: Nothing in this Settlement Agreement shall be interpreted to give any Party a claim for recovery of any legal costs or attorney's fees. Each Party agrees it will bear its own costs and expenses.

15. Construction of Agreement: Nothing in this or any other agreement shall be construed so as to deprive a Federal Official of the authority to revise, amend, or promulgate regulations. Nor shall anything in this Settlement Agreement be construed to commit a Federal Official to expend funds not appropriated by Congress. In no event, shall anything in this Settlement Agreement bar any Party from seeking judicial relief enforcing this Settlement Agreement in any court having jurisdiction over the Parties to, and the subject matter of, this Settlement Agreement.

16. Counterparts: This Settlement Agreement may be executed in two or more counterparts; it shall not be necessary that the signatures of all Parties hereto be contained on any one counterpart and each counterpart shall constitute one and the same agreement. This Settlement

Agreement may also be executed by facsimile signatures, which shall be deemed originals for all purposes.

17. Confidentiality: Except as may be required by applicable law and except as may be necessary to effect the execution of this Settlement Agreement, the Parties agree to keep the subject matter of this Settlement Agreement confidential and shall not allow the same to be disclosed to any third Party without the prior written consent of the Parties.

18. Effective Date: This Settlement Agreement will be effective when executed by all Parties.

Signatures appear on the next page.

IN WITNESS WHEREOF, the Parties have executed this Settlement Agreement as of the respective dates indicated below:

Minerals Management Service

By: _____
R. M. "Johnnie" Burton
Director

Date: 5-21-2007

Williams Production Company, LLC

By: _____
Bryan Guderian
Title: Vice-President

Date: 5/31/07

Legal

United States Department of Justice

By: _____
Gregory Page, Trial Attorney
Environment and Natural Resources Division
Counsel for the Department of the Interior

Date: _____

Davis Graham & Stubbs, LLP
1550 Seventeenth Street, Suite 500
Denver, Colorado 80202-1500
Attorneys for Williams Production Company, LLC

Approved as to form:

By: _____
Charles L. Kaiser, Esq.

Date: May 24, 2007

By: _____
Charles A. Breer, Esq.

Date: 5/24/07

Settlement Exhibit

Property	MMS Agreement	MMS Lease No
(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)
	(B)(4) (B)(7)(e)	
(B)(4) (B)(7)(e)		
(B)(4) (B)(7)(e)		
		(B)(4) (B)(7)(e)

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MEMORY TRANSMISSION REPORT

TIME : JAN-24-05 16:29
TEL NUMBER1: 3032313744
TEL NUMBER2:
NAME : MINERALS MANAGEMENT SERVICE

FILE NUMBER : 360

DATE : JAN-24 16:27

TO : 89185735630

DOCUMENT PAGES : 10

START TIME : JAN-24 16:27

END TIME : JAN-24 16:29

SENT PAGES : 10

FILE NUMBER : 360 *** SUCCESSFUL TX NOTICE ***

MINERALS MANGEMENT SERVICE
MINERALS REVENUE MANAGEMENT
LAKEWOOD, COLORADO

DATE: 1/24/2005

TO: HELEN WOOD
OFFICE: WILLIAMS
FAX NO: 918-573-5630
PHONE:

FROM: SHIRLEY BURHOP
OFFICE: MMS
PHONE: 303-231-3434

THIS DOCUMENT HAS 10 INCLUDING THIS PAGE.

PLEASE CONFIRM RECEIPT OF THIS DOCUMENT.
FAXED BY:
PHONE:

COMMENTS:

RECEIPT CONFIRMED:
DATE:
TIME:

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

MMS-FEDCAM-05-0011
Mail Stop 392B2

JAN 2 4 2005

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Ms. Helen Wood
Williams Production Company L.L.C.
One Williams Center
Tulsa, Oklahoma 74172

Dear Ms. Wood:

(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)

information regarding the Milagro and Iganacio Plants and associated transportation systems for calendar year 2004. A copy of that agreement is provided at Enclosure 1. As described in

(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)

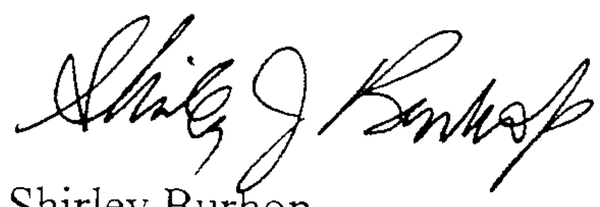
producers sending production to these plants are often charged a bundled fee for both transportation and CO^2 removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, we need to be able to distinguish allowable from unallowable costs included in that bundled fee when we conduct audits of royalties paid on Federal and Indian leases. A sample of the summary breakdown that Williams has previously provided is shown at Enclosure 2.

We also request documentation supporting the calculations. The information required in support of transportation costs can be found at 30 CFR 206.157 (b) (i) – (iv) (2004). The information required in support of processing costs can be found at 30 CFR 206.159 (b) (i) – (iv) (2004). The information may be presented in the format prescribed by MMS Forms 4295 and 4109, which you are required to submit for Indian leases per 30 CFR 206.178 (b) (ii) (2004) and 30 CFR 206.180 (b) (ii) (2004). We are not mandating use of these forms for this request, but they are an acceptable format for the information we are requesting. We also request that you provide us a reconciliation of cost data to the percentages to be applied to the rates. Please also provide us the name and phone number of a person we can contact if we have any questions regarding your response.

TAKE PRIDE® IN AMERICA

As required by the agreement, we are making this request prior to February 1, 2005 and expect your response within 90 days of receipt of this notification, unless you request an extension of time in writing. If you need any additional information, please call Shirley Burhop at (303) 231-3434 or write to us at the address above.

Sincerely,



Shirley Burhop
Western Team Manager, FEDCAM

Enclosures

SETTLEMENT AGREEMENT

This Settlement Agreement is made between Williams Production Company L.L.C. ("Williams") and the United States Department of the Interior, including all of its divisions, agencies, or any component part (hereinafter "the Department").

RECITALS

A. On December 13, 2002, the Department's Minerals Management Service ("MMS") issued a Notice of Noncompliance and Civil Penalty (CP03-012) ("Notice") to Williams for Knowing or Willful Failure to Permit an Audit. The Notice was based on MMS' request for certain information for calendar years 1999, 2000, and 2001. The total amount assessed as of the date of the Notice was (B)(4) (B)(7)(e)

B. On January 10, 2003, Williams filed a hearing request with the Office of Hearings and Appeals on the Notice. That hearing request is docketed as MMS 2003-1, and is still pending.

C. The parties have over the last several months been engaged in negotiations aimed at resolving the issues set forth in the Notice. To that end, the parties have agreed to take certain steps presented below.

D. Williams and the Department desire to reach full and final settlement of all of the matters raised by the paragraphs above.

AGREEMENT

THEREFORE, in consideration of the mutual promises and covenants set forth herein and for good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, the parties to this Settlement Agreement hereby incorporate and agree to the accuracies of the recitals set forth above and further agree as follows:

1. Williams will pay the Department the [redacted] (B)(4) (B)(7)(e) within (10) days of Williams' receipt of the fully executed copy of this Settlement Agreement pursuant to instructions provided by the Department.

[redacted]
(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

6. Within 30 days following Williams' compliance with the provisions in Paragraph 1,

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

7. MMS anticipates that it will require updates to the information described in

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

8. Except to the extent necessary to enforce the terms and conditions of this Settlement Agreement, each party agrees that it will not institute any legal or other proceedings to litigate, arbitrate, appeal or attack in any fashion any claim or issue resolved by this Settlement Agreement.

9. The Departmen (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

(B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

10. The releases contained herein shall bind and inure to the benefit of the principals, agent, employees, related or affiliated entities, representatives, successors and assigns of the parties.

11. Except as may be required by the provisions of applicable law, the parties agree to keep the subject matter and terms of this Settlement Agreement confidential and shall not allow any aspect of this Settlement Agreement to be disclosed to any third party, without the prior written consent of the parties.

12. The parties represent that the person executing the Settlement Agreement on each party's behalf has been duly authorized by all necessary and appropriate actions to enter into this Settlement Agreement. Each party represents that it has read and understands this Settlement Agreement and that it has been represented by competent legal counsel with regard to it and the matters covered hereby.

13. This Settlement Agreement is the entire agreement among the parties, and no representation, warranties or other statement or promises have been made by either party in connection with this Settlement Agreement. The Settlement Agreement may be

amended or modified only by written agreement, executed by an authorized representative of each party.

14. It is specifically understood and agreed that this Settlement Agreement is executed for the sole purposes of settling the issues described herein. Neither Williams nor the Department shall be deemed to have approved, accepted, or consented to any concept, method, theory, principle, or statutory, regulatory or contractual interpretation underlying, or supposedly underlying, any of the matters agreed to herein or raised in connection with the issues settled herein. Nothing herein shall ever prevent the Department from asserting and reopening any of its claims against Williams as the Notices of Noncompliance and Civil Penalty which are the subject of this Settlement Agreement for reasons of either fraud, concealment, or misrepresentation of any material fact. This Settlement Agreement shall have no precedential value and shall not be binding on either party as to any other issues other than those specifically identified herein.

15. Nothing in this Settlement Agreement shall be interpreted to give either party a claim for recovery of any legal costs or attorneys fees. Each party agrees that it will bear its own costs and expenses.

16. Nothing in this Settlement Agreement shall be construed as to deprive a Federal official of the authority to revise, amend, or promulgate regulations. Nor shall anything in this Settlement Agreement be construed to commit a Federal official to expend funds not appropriated by Congress. In no event shall anything in this Settlement Agreement bar either party from seeking judicial relief enforcing this Settlement Agreement in any court having jurisdiction over the parties to, and the subject matter of this Settlement Agreement.

17. This Settlement Agreement is effective as of the date it is executed by all parties, and this Settlement Agreement may be executed in counterpart originals, and shall become effective on the date when both parties have signed an original. An executed original copy shall be provided by each party.

IN WITNESS WHEREOF, the parties have executed this Settlement Agreement as of the respective dates indicated below.

WILLIAMS PRODUCTION COMPANY L.L.C.

By: Sandy L. Fallmer
Title: Controller & Treasurer
Date: 9/5/2003

UNITED STATES OF AMERICA
DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

By: Lucy Fuerques Denett
Title: Associate Director, Minerals Revenue Management
Date: 10/3/03

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
May 30, 2003

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*			
	2002	2001	2000	1999
Ignacio/San Juan Facilities				
Processing				(B)(4)
Gathering				(B)(7)(e)
Milagro/Manzanares Facilities				
Treating				(B)(4)
Gathering				(B)(7)(e)
	(B)(4)			(B)(4)
	(B)(7)(e)			(B)(7)(e)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 5760
Denver, Colorado 80217-5760
www.mrm.mms.gov

AD/OE
Mail Stop 370B2

OCT - 6 2003

SURNAME	
NAME	DATE
G. Keeton	10/6/03

CERTIFIED MAIL

Mr. Charles A. Breer
Davis Graham & Stubbs LLP
1550 Seventeenth Street, Suite 500
Denver, Colorado 80202

Re: Williams Production Company, LLC - Notice of Civil Penalty (Case CP03-012)

Dear Mr. Breer:

Your copy of the fully-executed settlement agreement for this case is enclosed. If you have any questions, please contact Geary Keeton, Enforcement Operations Officer, at 303-231-3096.

Sincerely,

Kenneth R. Vogel
Chief, Office of Enforcement

Enclosure

cc: Sarah Inderbitzin

bcc: MRM Yellow Chron
OE Chron
LMS:AD/OE:MS370B2:10/6/03:GKEETON/303-231-3096N:OE:DOC:signed settlement xmit 1.doc

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

MMS-FEDCAM-08-0067
Mail Stop 392B2

Mr. Morris Miller
Senior Accountant, Regulatory Reporting
Williams Production Company, LLC
One Williams Center
Tulsa, Oklahoma 74172

Dear Mr. Miller:

(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
information regarding the Milagro and Ignacio Plants and associated transportation systems for calendar year 2007.
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
systems. Producers sending production to these plants are often charged a bundled fee for both transportation and CO^2 removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, we need to be able to distinguish allowable from unallowable costs included in that bundled fee when we conduct audits of royalties paid on Federal and Indian leases. A sample of the summary breakdown that Williams has previously provided is shown on the Enclosure.

We also request documentation supporting the calculations. The information required in support of transportation costs can be found at 30 CFR § 206.157 (b) (i) – (iv) (2004). The information required in support of processing costs can be found at 30 CFR § 206.159 (b) (i) – (iv) (2004). The information may be presented in the format prescribed by MMS Forms 4295 and 4109, which you are required to submit for Indian leases per 30 CFR § 206.178 (b) (ii) (2004) and 30 CFR § 206.180 (b) (ii) (2004. We are not mandating use of these forms for this request, but they are an acceptable format for the information we are requesting. We also request that you provide us a reconciliation of cost data to the percentages to be applied to the rates. Please also provide us the name and phone number of a person we can contact if we have any questions regarding your response.

We expect your response within 90 days of receipt of this notification, unless you request an extension of time in writing. If you need any additional information, please call Mike Ernest at (303) 231-3747 or write to us at the address above.

Sincerely,

Mary Williams
Manager, FEDCAM

Enclosure

N: Common: CAM/FED/Shared/FEDCAM: Williams Production Company 2007.doc

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
May 26, 2006

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*							
	2006	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities								
Processing					(B)(4)		(B)(7)(e)	
Gathering								
Milagro/Manzanares Facilities								
Treating					(B)(4)		(B)(7)(e)	
Gathering								

(B)(4)

(B)(7)(e)

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
June 2, 2008

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*								
	2007	2006	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities									
Processing									
Gathering					(B)(7)(e)	(B)(4)			
Milagro/Manzanares Facilities									
Treating									
Gathering					(B)(7)(e)	(B)(4)			

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

[redacted] **O8-0067** [redacted]

[redacted] F - Federal

Request to unbundle fees, Milagro and Ignacio plants, 2007

[redacted] 2 - Moderate - 60 day completion

[redacted] 3 - On Shore & Off Shore

Previous Projects

070014

[redacted]

[redacted] March 11, 2008

[redacted] March 11, 2008

[redacted] March 19, 2008

Companies	States	Leases
Williams Production	New Mexico	

Keywords	Products	Tribes	Audits
Allowance - Processing Allowance - Transportation	Processed (Residue) Gas Gas Plant Products		

Identifiers	Work Elements	Origin	Employees	[redacted]
	(B)(4) (B)(7)(e)		ERNEST	CAM Fed

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

Comments For Project Number O80067

Employee: ERNEST

Jim Thomas called from Williams asking if this was request was goinmg to be made. I read the (B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e) (B)(4) (B)(7)(e)

I have mentioned to Mr. Thomas the request will be sent in writing as soon as I can collect the information to prepare this year's letter. I will recontact Mr. Thomas about my progress. 3/17/2008

[redacted] **O7-0014**

[redacted] **F - Federal**

[redacted] **2 - Moderate - 60 day completion**

[redacted] **1 - On Shore**

[redacted]

Request to unbundle fees, Milagro and Ignacio plants, 2006

Previous Projects

[redacted]

[redacted] **January 29, 2007**

[redacted] **January 29, 2007**

[redacted] **January 31, 2007**

[redacted]

[redacted] **June 29, 2007**

[redacted]

Companies	States	Leases
Williams Production	New Mexico	

Keywords	Products	Tribes	Audits
Allowance - Processing Allowance - Transportation	Processed (Residue) Gas Gas Plant Products		

Identifiers	Work Elements	Origin	Employees	[redacted]
	(B)(4) (B)(7)(e)		BURHOP ERNEST	CAM Fed CAM Ind

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

[redacted] O6-0032

[redacted] F - Federal

[redacted] 2 - Moderate - 60 day completion

[redacted] 1 - On Shore

[redacted] Request to unbundle fees charged at Ignacio and Milagro plants for 2005

Previous Projects

020190
050011

[redacted] January 1, 2006

[redacted] January 1, 2006

[redacted] June 16, 2006

Companies	States	Leases
Williams Production	New Mexico	

Keywords	Products	Tribes	Audits
Allowance - Processing Coalbed Methane	Coal Bed Methane		

Identifiers	Work Elements	Origin	Employees	[redacted]
	(B)(4) (B)(7)(e)		BURHOP	CAM Fed

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

[redacted] **O5-0011**

[redacted] F - Federal

[redacted] 3 - Ongoing long-term project

[redacted] 1 - On Shore

[redacted] Milagro and Iganacio Plants transportation and processing.

Previous Projects

020190
980077

[redacted]

[redacted]	January 1, 2005
[redacted]	January 1, 2005
[redacted]	April 25, 2005
[redacted]	
[redacted]	January 28, 2005
[redacted]	June 13, 2005

Companies	States	Leases
Williams Production	New Mexico	

Keywords	Products	Tribes	Audits
Allowance - Processing	Processed (Residue) Gas		
Allowance - Transportation	Unprocessed Gas		

Identifiers	Work Elements	Origin	Employees	[redacted]
	(B)(4)	Companies	BURHOP	CAM Fed
	(B)(7)(e)			

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

Comments For Project Number O50011

Employee: BURHOP

Letter requesting breakout of costs was both mailed and faxed to Williams on 1.24.2005. Response requested within 90 days, per terms of settlement agreement. Green card signed on January 28, 2005, so response due no later than Friday, April 29, 2005.

Received a confirmation from Helen Wood of Williams, confirming receipt of the fax on 1.26.2005.

Received a call from Kim Richards (works for David Wells) of Williams on 1/31/2005 clarifying the format for the information requested.

Received a letter on March 21 from Helen Woods, dated March 15, 2005, requesting a 60 day extension of time to respond. New due date will be Tuesday, June 28.

Received response from Helen Woods with Williams on June 13, 2005. Breakdown of rates sent to Jack Lougee and Nancy Rodriguez in New Mexico on June 14, 2005. Case closed.

[redacted] **O2-0190**

[redacted]

[redacted] B - Both

[redacted] 2 - Moderate - 60 day completion

[redacted] 1 - On Shore

Letter to coalbed methane processors requesting unbundled costs

Previous Projects

[redacted]

[redacted] March 9, 2002

[redacted] March 9, 2002

[redacted]

[redacted]

[redacted]

[redacted] May 30, 2003

[redacted]

Companies	States	Leases
Williams Production	Colorado New Mexico	

Keywords	Products	Tribes	Audits
Allocation - Oil & Gas Allowance Allowance - Transportation	Unprocessed Gas		

Identifiers	Work Elements	Origin	Employees	[redacted]
	(B)(4) (B)(7)(e)		BURHOP	CAM Fed

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

Comments For Project Number O20190

Employee: BURHOP

Letter to Williams Energy regarding the Ignacio and Milagro plants was mailed August 16, received August 22, 2002. Response due 90 days from then, on November 20, 2002.

Williams did not respond to the August 16 letter and was issued a NONC on December 13, 2002. They then provided the requested information January 13, 2003. They subsequently provided 2002 rate information on May 30, 2003.

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

March 17, 2008

Minerals Management Service
Minerals Revenue Management
ATTN: Mike Ernest
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Re: Request for 90 Day Extension to Provide Milagro and Ignacio Documentation of Unbundled Charges

Dear Mike

Williams Production Company, LLC, Payor Code 31070, has requested a 90 day extension to file Form MMS-4109, and Form MMS-4295 for the 2007 production periods. Williams pays royalty to the Jicarilla-Apache Tribe and the Southern Ute Tribe (B)(4) (B)(4)

Thank You

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

Encl: Request for 90-Day Extension to File Allowance Forms

EXPLORATION & PRODUCTION
ONE WILLIAMS CENTER
PO BOX 3102
TULSA, OK 74101-3102
918.573.2000

FACSIMILE TRANSMITTAL SHEET

TO: MIKE ERNEST	DATE: 3-17-08
COMPANY: Minerals Management Service	SENDER'S NAME: Tim Thomas
FAX NUMBER: 303-231-3744	TOTAL NO. OF PAGES, INCLUDING COVER: 2
PHONE NUMBER: 303-231-3747	SENDER'S PHONE: 918-573-0496
SUBJECT: Request for 90 Day Extension Allowance Filings	SENDER'S FAX:

☒ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

The information contained in this facsimile message is privileged, confidential and protected from disclosure. If you think you have received this fax in error, if you do not receive all pages, or if you have any problem receiving this transmission, please call 918.573.2498.

Ernest, Mike

From: Morris, James
Sent: Monday, July 30, 2007 8:37 AM
To: Ernest, Mike; Temmer, Virginia
Subject: FW: MMS Settlement COS Adjustments since Jan 2006.xls
Attachments: 31070 20070731 Manz.csv

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Monday, July 30, 2007 7:43 AM
To: Morris, James; Williams, Mary
Subject: FW: MMS Settlement COS Adjustments since Jan 2006.xls

FYI

From: Lougee, Jack R., TRD
Sent: Monday, July 30, 2007 7:20 AM
To: Severson, Valdean H., TRD
Subject: FW: MMS Settlement COS Adjustments since Jan 2006.xls

(B)(4)

(B)(7)(e)

From: Miller, Morris (E&P) [mailto:Morris.Miller@Williams.com]
Sent: Friday, July 27, 2007 2:22 PM
To: virginia.temmer@mms.gov; Lougee, Jack R., TRD; Martinez, Gilbert P., TRI
Cc: Suter-Levin, Donnie (E&P); Fullmer, Landy (E&P)
Subject: MMS Settlement COS Adjustments since Jan 2006.xls

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Talk with you next Wednesday!

Thanks

Morris
Office: 918-573-1158

7/30/2007

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(7)(e)

Facsimilie: 918-573-1821

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U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT
FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070
ADDRESS: PO BOX 3102
CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING
PRODUCT CODE: 07
PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment
Extraction Facility	$ (B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
Fractionation Facility	$	$		$	$

Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)	$
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)	(B)(4) (B)(7)(e)
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).	$

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

A. Lessee's Operating Costs			
Labor	$	(B)(4) (B)(7)(e)	1
Utilities			2
Plant Fuel			3
Rent			4
Ad Valorem Property Taxes			5
Employee Expenses & Vehicle Costs			6
Office Supplies & Expenses			7
Other (specify). Attach Supplemental Schedule 2A			8
as necessary. (See "A" items on Supplemental 2A)			9
Total Operating Costs -- Subtotal	$		10
B. Lessee's Maintenance Costs			
Materials & Parts	$	(B)(4) (B)(7)(e)	11
Contractors & Outside Professional Services			12
Utilities			13
Other (specify). Attach Supplemental Schedule 2 A			14
as necessary. (See "B" items on Supplemental 2A)			15
Total Maintenance Costs -- Subtotal	$		16
C. Lessee's Overhead Allocation (specify)			
Administrative and General Costs	$		17
(See 'C' items on Supplemental 2A)			18
Other (specify) use Supplemental Schedule 2A			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	(B)(4) (B)(7)(e)	21

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe	
Item "A" :	$
Environmental	
Property Insurance	
Cogeneration Revenue Acct 495	
Overhead and Expense Reduction Allocation	$
TOTAL	$
Item "B" :	
0	
Gas Proc Tax/Other Taxes	$
TOTAL	
Item "C":	
A&G Salaries & Payroll Loading	
Employee Expenses & Vehicle Costs	
G&A office Supplies & Expenses	
G&A Outside Services & Professional Fees	
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Allocated G&A costs	
Miscellaneous	
Property / Liability Insurance	
TOTAL	

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Note: The above are direct charges by business unit and do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check [X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2E

2 Expenditure item	3 Initial Capital Investment and Date Placed in Service	4 Salvage Value	5 Depreciable Life/Years of Depreciation Taken to Date	6 Undepreciated Capital Investment at Beginning of Year	Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$					
Extraction & Refining						
Comp. and Recompressor						
Other Equipment						
8 Totals	$					

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

DATA FILE IGNACIO PLANT

DATE: 01/01/05 to 12/31/05

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment

Liquid Product Sales Total Gallons
Liquid Product Sales Total Dollars

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts

Contractors & Outside Professional Servi

Gas Proc Tax/Other Taxes
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional Fees
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Allocatio

Proprietary box checked

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

FORM MMS - 4109, Schedule 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:

KUTZ CONDITIONING PLANT

WGP - BLANCO

PRODUCT CODE 07

PERIOD: 01/01/06 to 12/31/06

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
		(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)
	TOTALS	(B)(4) (B)(7)(e)	(B)(4) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [x] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR: KUTZ CONDITIONING PLANT

WGP - BLANCO

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment
Extraction Facility	$ (B)(4) (B)(7)(e)			(B)(4) (B)(7)(e)	
Fractionation Facility	$				

Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	(B)(4) (B)(7)(e)
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)	$	
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)		
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).	$	

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Schedule 2A

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Kutz Conditioning Plant
WGP - BLANCO
Product: 07
Period: 01/01/06 to 12/31/06

A. Lessee's Operating Costs			
Labor	$	(B)(4) (B)(7)(e)	1
Utilities			2
Plant Fuel			3
Rent			4
Ad Valorem Property Taxes			5
Employee Expenses & Vehicle Costs			6
Office Supplies & Expenses			7
Other (specify). Attach Supplemental Schedule 2A			8
as necessary. (See "A" items on Supplemental 2A)			9
Total Operating Costs – Subtotal	$		10
B. Lessee's Maintenance Costs			
Materials & Parts	$	(B)(4) (B)(7)(e)	11
Contractors & Outside Professional Services			12
Utilities			13
Other (specify). Attach Supplemental Schedule 2 A			14
as necessary. (See "B" items on Supplemental 2A)			15
Total Maintenance Costs – Subtotal	$		16
C. Lessee's Overhead Allocation (specify)			
Administrative and General Costs	$	(B)(4) (B)(7)(e)	17
(See 'C' items on Supplemental 2A)			18
Other (specify) use Supplemental Schedule 2A			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs [Line 10 + line 16 + line 20]	$		21

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FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Kutz Conditioning Plant
WGP - BLANCO
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$
Environmental	
Property Insurance	
Cogeneration Revenue Acct 495	
Overhead and Expense Reduction Allocation	$
TOTAL	$
Item "B" :	
Gas Proc Tax	
Maintenance of Gas Measurement & Reg.	$
TOTAL	
Item "C":	
A&G Salaries & Payroll Loading	
Employee Expenses & Vehicle Costs	
G&A office Supplies & Expenses	
G&A Outside Services & Professional Fees	
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
Property / Liability Insurance	
TOTAL	

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Note: The above are direct charges by business unit and do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

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FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Kutz Conditioning Plant
WGP - BLANCO
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES
DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2	3	4	5	6	7
Expenditure item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Subject to Rate	Undepreciated Capital Investment	Undepreciated Capital Investment
Structure & Improvements	$				
Extraction & Refining					
Comp. and Recompressor					
Other Equipment					
8	Totals	$			

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

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U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Lease Number:
Agreement Number:
Facility ID No: (B)(4) (B)(7)(e)
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment		
Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies, Facilities & Cost Assignment		7
Other (specify). Attach Supplemental Schedule 1A as necessary. See A.		8
		9
Total Operating Costs -- Subtotal	$	10
B. Lessee's Maintenance Costs		
Contractors & Outside Professional Services	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A as necessary. See B.		14
		15
Total Maintenance Costs -- Subtotal	$	16
C. Lessee's Overhead Allocation (specify)		
Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21
E. Allocated to Segment Lease Volume (B)(7)(e) (B)(4) / Total throughput (B)(7)(e) (B)(4)	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$	23

(B)(4)
(B)(7)(e)

(B)(4)

Util/Fuel

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☒ PROPRIETARY

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FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe

Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	(B)(4)
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	(B)(7)(e)
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
TOTAL	$

(B)(4)
(B)(7)(e)

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[X] PROPRIETARY

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U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Production Company/3107
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION

SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY

FORM MMS - 4295, Schedule 1B

1 Expenditure item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$		(B)(4)	(B)(7)(e)		
Gathering Facilities						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals $ (B)(4) (B)(7)(e) 8

Allocated to Segment (from line 22, Schedule 1A) (B)(4) 9

Segment Depreciation and Capital Expenditure (B)(4) 10
(Line 8 x line 9) Enter in column g and e, Schedule 1

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FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

San Juan Gathering System (B)(7)(e)
Depreciation Calculation

(B)(4) (B)(7)(e) (B)(4)

	12/31/05 Gas Plant	Salvage Value	Net Plant	2005 Dep. Expense	Acc DD&A 12/31/06	From Previous Filing Acc DD&A 12-31-05	Undepreciated Capital 1-1-06
Acct							
Acct							
Acct							
Acct							

(B)(4) (B)(7)(e)

(B)(4)

	Gas Plant 12/31/05	Salvage Value	Net Plant	Undepreciated Capital 12-31-06
Acct				
Acct				
Acct				
Acct				

(B)(7)(e)

(B)(4)

(B)(7)(e)

SCHEDULE 1B -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT
DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FOOTNOTES:

1/ (B)(4)

2/ (B)(7)(e)

3/ (B)(4) (B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/06 to 12/31/06

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity		(d) Non-Arm's-Length Processing Costs ($)
		(B)(4)		(B)(4)
		(B)(7)(e)		(B)(7)(e)
		(B)(7)(e)		(B)(7)(e)
	TOTALS	(B)(4)	TOTALS	(B)(4)

Enter as the non-arms length Product Processing Allowance Rate the unit processing cost [total non-arm's length processing costs (column d) divided by total sales quantity (col (B)(4) The allowance rate is to be carried to 6 decimal places; i.e. (B)(7)(e)

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FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR: IGNACIO CONDITIONING PLANT WILLIAMS GAS PROCESSING

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4)		(B)(7)(e)	$	1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)

(B)(7)(e)

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FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

A. Lessee's Operating Costs			
Labor	$	(B)(4)	1
Utilities			2
Plant Fuel			3
Rent			4
Ad Valorem Property Taxes			5
Employee Expenses & Vehicle Costs			6
Office Supplies & Expenses			7
Other (specify). Attach Supplemental Schedule 2A			8
as necessary. (See "A" items on Supplemental 2A)			9
Total Operating Costs – Subtotal	$	(B)(7)(e)	10
B. Lessee's Maintenance Costs			
Materials & Parts	$		11
Contractors & Outside Professional Services			12
Utilities			13
Other (specify). Attach Supplemental Schedule 2 A			14
as necessary. (See "B" items on Supplemental 2A)			15
Total Maintenance Costs – Subtotal	$		16
C. Lessee's Overhead Allocation (specify)			
Administrative and General Costs	$		17
(See 'C" items on Supplemental 2A)			18
Other (specify) use Supplemental Schedule 2A			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$		21

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FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe		
Item "A" :		$
Environmental		
Property Insurance		
Cogeneration Revenue Acct 495		
Overhead and Expense Reduction Allocation		$
TOTAL		$
Item "B" :		
	0	
Gas Proc Tax/Other Taxes		$
TOTAL		
Item "C":		
A&G Salaries & Payroll Loading		
Employee Expenses & Vehicle Costs		
G&A office Supplies & Expenses		
G&A Outside Services & Professional Fees		
IT allocation		
OTS/WES allocation		
Corporate OH Allocation		
Allocated G&A costs		
Miscellaneous		
Property / Liability Insurance		
TOTAL		

(B)(4)

(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

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☐ NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2	3	4	5	6	7
Expenditure item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$					
Extraction & Refining						
Comp. and Recompressor						
Other Equipment						

(B)(4) (B)(7)(e)

8 Totals $ (B)(4) (B)(7)(e)

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DATA FILE IGNACIO PLANT

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment

Liquid Product Sales Total Gallons
Liquid Product Sales Total Dollars

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts

Contractors & Outside Professional S

Gas Proc Tax/Other Taxes
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Alloc

Proprietary box checked

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND COD WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS PO BOX 3102

CITY TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: San Juan Gathering System

PRODUCT CODE 04

PERIOD: 01/01/06 to 12/31/06

(a) Segment Name or Number From To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
		$	$		$	$	$	3
								4
								5
								6
								7
	TOTALS	$	$ 0	$ 0			$ 0	8
							$	9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Partial A total Cost / Partial A Total Quar = Gas Rate / Mcf

Allowance rate for transporting NGL'S or Sulfer from the lease to plant. 10

Sulfer Rate/LT NGL Rate/Gal

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

	(B)(4)	4	$ (B)(4)					11
								12
								13
	TOTALS		$ (B)(4)				$ (B)(4)	14

(B)(7)(e)

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. (B)(4) Part B Total Value (B)(7)(e) Part B Total Quantity = (B)(4) Product Rate 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

16 Allowance Rate

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FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1– NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR: IGNACIO CONDITIONING PLANT WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(7)(e)	(B)(4)		$	1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)

(B)(7)(e)

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FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

SCHEDULE 1A – NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$		1
Operations Labor			2
Utilities/Fuel			3
Materials			4
Ad Valorem Property Taxes			5
Rent			6
Supplies, Facilities & Cost Assignment			7
Other (specify). Attach Supplemental Schedule 1A as necessary. See A.			8
			9
Total Operating Costs – Subtotal	$		10

B. Lessee's Maintenance Costs

Contractors & Outside Professional Services	$		11
Maintenance Labor			12
Materials			13
Other (specify). Attach Supplemental Schedule 1A as necessary. See B.			14
			15
Total Maintenance Costs – Subtotal	$		16

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$		17
Outside Professional Services			18
Other (specify) use Supplemental Schedule 1A See C.			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$		21
E. Allocated to Segment (B)(4) Lease Volume (B)(4) / Total throughput (B)(4)	$		22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$		23

(B)(4)

(B)(7)(e)

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[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
TOTAL	$

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

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[X] PROPRIETARY

[ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Production Company/3107
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2	3	4	5	6	7
Expenditure item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$	(B)(7)(e)	(B)(4)			
Gathering Facilities						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals	$ (B)(4) (B)(7)(e)	8
Allocated to Segment (from line 22, Schedule 1A)		9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1		10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - San Juan Gathering

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Gathered Volumes - MCF
Williams Production Share Gathered Volumes

Gas Plant
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Transportation Equipment
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)

(B)(7)(e)

SCHEDULE 1B – NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT
DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FOOTNOTES:

1/

(B)(4)
(B)(7)(e)

2/

3/

(B)(7)(e)

EXPLORATION & PRODUCTION
One Williams Center
P.O. Box 3102
Tulsa, OK 74101-3102
918/573-2000

March 04, 2009

Minerals Management Service
Minerals Revenue Management
ATTN: Mike Ernest
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Re: Request for 90 Day Extension to Provide Milagro and Ignacio Documentation of Unbundled Charges

Dear Mike

Williams Production Company, LLC, Payor Code 31070, has requested a 90 day extension to file Form MMS-4109, and Form MMS-4295 for the 2008 production periods. Williams pays royalty to the Jicarila-Apache Tribe and the Southern Ute Tribe (B)(4)

Thank You

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

Encl: Request for 90-Day Extension to File Allowance Forms

EXPLORATION & PRODUCTION
One Williams Center
P.O. Box 3102
Tulsa, OK 74101-3102
918/573-2000

March 04, 2009

Minerals Management Service
Minerals Revenue Management
Indian Oil and Gas Compliance and Asset
Management (Indian CAM)
ATTN: Thresa Bayani
P.O. Box 25165, MS 396B2
Denver, CO 80225-0165

Subject: Request for 90-Day extension to file Form MMS-4009 and MMS-1295

Dear Thresa

Williams Production Company, LLC, Payor Code 31070, request a 90-Day extension to file Form MMS-4109 and Form MMS-4295 for the 2008 production periods. Williams pays royalty to the Jicarilla Apache Tribe and to the Southern Ute Tribe (B)(4) (B)(7)(e)

I have attached a list of the MMS Lease Numbers

Thank You,

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

CC: Minerals Management Services
Minerals Revenue Management
ATTN: Mike Ernest
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Encl: Listing of Indian Leases

Payor Code: 31070 Williams Production Company, LLC
Schedule of Indian Leases

Contract
Numbers

(B)(4)

(B)(7)(e)

Williams

MINERALS MANAGEMENT SERVICE
MINERALS REVENUE MANAGEMENT
DOCUMENT PROCESSING SECTION
JUN 30 2008
RECEIVED
LAKEWOOD, COLORADO

June 27, 2008

Minerals Management Service
Minerals Revenue Management
Indian Oil and Gas Compliance and Asset
Management (Indian CAM)
Attn: Thresa Bayani
P.O. Box 25165, Mail Stop 396B2
Denver, CO 80225-0165

Subject: 2007 Gas Processing Allowance Calculations (Form MMS-4109)

Dear Thresa

Here are allowance reports for Williams Production Company, LLC, for the 2007 production periods related to Indian leases.

Thank you,

Morris Miller, CPA
Supervisor. MMS Royalty Reporting Group
Williams Production Company, LLC

Encl: Forms MMS-4109 for Ignacio and Kutz Gas Processing Plants

Payor: 31070 – Williams Production Company, LLC
Schedule of Indian Leases

Contract Number
(B)(4)
(B)(7)(e)
(B)(7)(e)

U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

Gas Processing Allowance Summary Report
Form MMS-4109

OMB Control Number 1010-0075
OMB Approval Expires 06/30/2009

FOR MMS USE ONLY:

1 PAYOR NAME Williams Production Company, LLC
2 PAYOR CODE 31070
ADDRESS P.O. Box 3201, MD 37-8
CITY Tulsa STATE OK ZIP 74101
4 AMENDED REPORT ☐
6 PLANT NAME KUTZ
5 REPORTING PERIOD (mm/dd/ccyy) 01/01/2007 to 12/31/2007

3 FOR PAYOR USE ONLY:

7	8 LEASE NUMBER	9 AGREEMENT NUMBER	10 PRODUCT CODE	11 NON-ARM'S LENGTH INDICATOR	12 ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	(B)(4)				(B)(7)(e)		
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
13	PAGE TOTAL				(B)(4) (B)(7)(e)	xxxxxxxxxxxx	(B)(4)
14	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxxx	(B)(7)(e)

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4109

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed): Morris Miller
DATE:

AUTHORIZED SIGNATURE:
DATE: 6-27-2008

NAME OF PREPARER: Jim Thomas
TELEPHONE NUMBER: 918-573-0496

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☐ PROPRIETARY ☐ NONPROPRIETARY

Paperwork Reduction Act of 1995 (PRA) Statement: The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to determine product valuation and to ensure that royalties are paid properly. The MMS uses the information to evaluate the reasonableness of allowances claimed. Responses are required to obtain a benefit. Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average 20 hours per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:

KUTZ CONDITIONING PLANT

WGP - BLANCO

PRODUCT CODE 07

PERIOD: 01/01/07 to 12/31/07

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
		(B)(4) (B)(7)(e)	
	TOTALS		TOTALS

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

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FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT
FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR: KUTZ CONDITIONING PLANT - WGP - BLANCO

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment
Extraction Facility	$	(B)(4) (B)(7)(e)			
Fractionation Facility	$				

Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	(B)(4) (B)(7)(e)
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)	$	
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)		
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).	$	

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FORM MMS-4109 SCHEDULE 2 (revised 02/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S-LENGTH PROCESSING
FACILITIES OPERATIONS, MAINTENANCE
AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Schedule 2A

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Kutz Conditioning Plant
WGP - BLANCO
Product: 07
Period: 01/01/07 to 12/31/07

A. Lessee's Operating Costs

Labor	$		1
Utilities			2
Plant Fuel			3
Rent			4
Ad Valorem Property Taxes			5
Employee Expenses & Vehicle Costs			6
Office Supplies & Expenses			7
Other (specify). Attach Supplemental Schedule 2A		(B)(4)	8
as necessary. (See "A" items on Supplemental 2A)			9
Total Operating Costs -- Subtotal	$		10

B. Lessee's Maintenance Costs

Materials & Parts	$	(B)(7)(e)	11
Contractors & Outside Professional Services			12
Utilities			13
Other (specify). Attach Supplemental Schedule 2 A			14
as necessary. (See "B" items on Supplemental 2A)			15
Total Maintenance Costs -- Subtotal	$		16

C. Lessee's Overhead Allocation (specify)

Administrative and General Costs	$		17
(See 'C' items on Supplemental 2A)			18
Other (specify) use Supplemental Schedule 2A			19
Total Overhead Allocation	$		20

D. Total Operating and Maintenance Costs $ 21
(Line 10 + line 16 + line 20)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/11070
Plant Name & Operator:
Kutz Conditioning Plant
WGP - BLANCO
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING
FACILITIES OPERATIONS, MAINTENANCE
AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$
Environmental	
Property Insurance	
Cogeneration Revenue Acct 495	
Overhead and Expense Reduction Allocation	$
TOTAL	$
Item "B" :	
Gas Proc Tax	
Maintenance of Gas Measurement & Reg.	$
TOTAL	
Item "C":	
A&G Salaries & Payroll Loading	
Employee Expenses & Vehicle Costs	
G&A office Supplies & Expenses	
G&A Outside Services & Professional Fees	
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
Property / Liability Insurance	
TOTAL	

(B)(4)

(B)(7)(e)

Note: The above are direct charges by business unit and do not include GXI and ACA.

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[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Kutz Conditioning Plant
MGP - BLANCO
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES
DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2	3	4	5	6	7
Expenditure Item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
	(B)(4)			(B)(7)(e)		
		8	Totals	$	(B)(4)	(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

DATA FILE KUTZ PLANT

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment

Liquid Product Sales Total Gallons
Liquid Product Sales Total Dollars

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Facilities & Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts
Gas Proc Tax
Contractors & Outside Professional Serv
Maintenance of Extraction & Refinery
Maintenance of Gas Measurement & Reg.
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional Fee
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Allocatio

Proprietary box checked

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

Gas Processing Allowance Summary Report
Form MMS-4109

OMB Control Number 1010-0075
OMB Approval Expires 06/30/2009

FOR MMS USE ONLY:

1 PAYOR NAME Williams Production Company, LLC

2 PAYOR CODE 31070

ADDRESS P.O. Box 3201, MD 37-8

4 AMENDED REPORT ☐

CITY Tulsa STATE OK ZIP 74101

6 PLANT NAME IGNACIO

5 REPORTING PERIOD (mm/dd/ccyy) 01/01/2007 to 12/31/2007

3 FOR PAYOR USE ONLY:

7	8 LEASE NUMBER	9 AGREEMENT NUMBER	10 PRODUCT CODE	11 NON-ARM'S LENGTH INDICATOR	12 ACTUAL DATA a ROYALTY	b ALLOWANCE	c ROYALTY ALLOWANCE
1							
2							
3	(B)(4) (B)(7)(e)				(B)(4) (B)(7)(e)		
4		(B)(4) (B)(7)(e)					(B)(4) (B)(7)(e)
5							
6							
7							
8							
9							
10							
11							
13							
14							

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4109

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed): MORRIS Miller — DATE:

AUTHORIZED SIGNATURE: [signature] — DATE: 6-27-2008

NAME OF PREPARER: Jim Thomas — TELEPHONE NUMBER: 918-573-0496

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☐ PROPRIETARY ☐ NONPROPRIETARY

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U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

Gas Processing Allowance Summary Report
Form MMS-4109

OMB Control Number 1010-0075
OMB Approval Expires 06/30/2009

FOR MMS USE ONLY:

1 PAYOR NAME Williams Production Company, LLC

2 PAYOR CODE 31070

ADDRESS P.O. Box 3201, MD 37-8

4 AMENDED REPORT ☐

CITY Tulsa STATE OK ZIP 74101

6 PLANT NAME IGNACIO

5 REPORTING PERIOD (mm/dd/ccyy) 01/01/2007 to 12/31/2007

3 FOR PAYOR USE ONLY:

7	8 LEASE NUMBER	9 AGREEMENT NUMBER	10 PRODUCT CODE	11 NON-ARM'S LENGTH INDICATOR	12 ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	(B)(4) (B)(7)(e)						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
13	PAGE TOTAL				(B)(4)	xxxxxxxxxxxx	(B)(4)
14	REPORT TOTAL (LAST PAGE ONLY)				(B)(7)(e)	xxxxxxxxxxxx	(B)(7)(e)

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4109

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) MORRIS MILLER DATE:

AUTHORIZED SIGNATURE: DATE: 6-27-2008

NAME OF PREPARER: Jim Thomas TELEPHONE NUMBER: 918-573-0496

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U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

Gas Processing Allowance Summary Report
Form MMS-4109

OMB Control Number 1010-0075
OMB Approval Expires 06/30/2009

FOR MMS USE ONLY:

1 PAYOR NAME Williams Production Company, LLC
2 PAYOR CODE 31070
ADDRESS P.O. Box 3201, MD 37-8
4 AMENDED REPORT ☐
CITY TULSA STATE OK ZIP 74101
6 PLANT NAME IGNACIO
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1	(B)(7)(e)						
2							
3							
4							
5	(B)(4)						
6							
7							
8							
9							
10							
11					(B)(7)(e)		
13	PAGE TOTAL					xxxxxxxxxxxx	
14	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxxx	(B)(7)(e)

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I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) MORRIS MILLER
DATE:

AUTHORIZED SIGNATURE:
DATE: 6-27-2008

NAME OF PREPARER: JIM THOMAS
TELEPHONE NUMBER: 918-573-0496

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U.S. Department of the Interior
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1	(B)(4)			(B)(7)(e)			
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							(B)(7)(e)
13	PAGE TOTAL				(B)(4) (B)(7)(e)	xxxxxxxxxxxx	(B)(4)
14	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxxx	

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NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) MORRIS MILLER DATE:

AUTHORIZED SIGNATURE: DATE: 6-27-2008

NAME OF PREPARER: JIM THOMAS TELEPHONE NUMBER: 918-573-0496

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U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

Gas Processing Allowance Summary Report
Form MMS-4109

OMB Control Number 1010-0075
OMB Approval Expires 06/30/2009

FOR MMS USE ONLY:

1 PAYOR NAME Williams Production Company, LLC
2 PAYOR CODE 31070
ADDRESS P.O. Box 3201, MD 37-8
4 AMENDED REPORT ☐
CITY TULSA STATE OK ZIP 74101
6 PLANT NAME IG NACIO
5 REPORTING PERIOD (mm/dd/ccyy) 01/01/2007 to 12/31/2007

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7	8 LEASE NUMBER	9 AGREEMENT NUMBER	10 PRODUCT CODE	11 NON-ARM'S LENGTH INDICATOR	12 ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	(B)(7)(e)			(B)(4) (B)(7)(e)		(B)(4) (B)(7)(e)	
2							
3							
4							
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10							
11							
13	PAGE TOTAL				(B)(7)(e)	xxxxxxxxxxxx	(B)(4)
14	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxxx	

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4109

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) MORRIS MILLER DATE:

AUTHORIZED SIGNATURE: DATE: 6-27-2008

NAME OF PREPARER: JIM THOMAS TELEPHONE NUMBER: 918-573-0496

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Paperwork Reduction Act of 1995 (PRA) Statement: The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to determine product valuation and to ensure that royalties are paid properly. The MMS uses the information to evaluate the reasonableness of allowances claimed. Responses are required to obtain a benefit. Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average 20 hours per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/07 to 12/31/07

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
			(B)(4)
		(B)(7)(e)	
			(B)(7)(e)
		(B)(7)(e)	(B)(7)(e)
	TOTALS	(B)(4)	TOTALS (B)(4)

Enter as the non-arms length processing Allowance Rate the unit processing cost [total non-arm's length processing costs (column d) divided by total sales quantity (col (B)(7)(e)). The allowance rate is to be carried to 6 decimal places; i.e., (B)(4)

(B)(4)

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FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR: IGNACIO CONDITIONING PLANT WILLIAMS GAS PROCESSING

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4)		(B)(7)(e)		1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(7)(e)	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(4)	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

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FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

A. Lessee's Operating Costs

Labor	$ (B)(4)	1
Utilities		2
Plant Fuel		3
Rent		4
Ad Valorem Property Taxes		5
Employee Expenses & Vehicle Costs		6
Office Supplies & Expenses		7
Other (specify). Attach Supplemental Schedule 2A		8
as necessary. (See "A" items on Supplemental 2A)		9
Total Operating Costs – Subtotal	$	10

B. Lessee's Maintenance Costs

Materials & Parts	$ (B)(7)(e)	11
Contractors & Outside Professional Services	(B)(4)	12
Utilities		13
Other (specify). Attach Supplemental Schedule 2 A		14
as necessary. (See "B" items on Supplemental 2A)		15
Total Maintenance Costs – Subtotal	$ (B)(7)(e) (B)(4)	16

C. Lessee's Overhead Allocation (specify)

Administrative and General Costs	$	17
(See 'C" items on Supplemental 2A)		18
Other (specify) use Supplemental Schedule 2A		19
Total Overhead Allocation	$ (B)(7)(e) (B)(4)	20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$ (B)(4) (B)(7)(e)	21

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FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$ (B)(7)(e)
Environmental	
Property Insurance	
Cogeneration Revenue Acct 495	
Overhead and Expense Reduction Allocation	$
TOTAL	$ (B)(7)(e) (B)(4)
Item "B" :	
0	
Gas Proc Tax/Other Taxes	$
TOTAL	(B)(4)
Item "C":	
A&G Salaries & Payroll Loading	
Employee Expenses & Vehicle Costs	
G&A office Supplies & Expenses	
G&A Outside Services & Professional Fees	(B)(4)
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Allocated G&A costs	(B)(7)(e)
Miscellaneous	
Property / Liability insurance	
TOTAL	

Note: The above are direct charges by business unit and

do not include GRI and ACA.

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FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 05/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2		3	4	5	6	7
Expenditure Item	Initial Capital Investment and Date Placed in Service		Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
(B)(4)	(B)(7)(e)	1/	$ (B)(7)(e)	(B)(7)(e) (B)(4)	$ (B)(4)		(B)(7)(e)
		1/					
		1/					
		1/					
8	Totals		$		(B)(4)		(B)(7)(e)

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[X] PROPRIETARY

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DATA FILE IGNACIO PLANT

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment

Liquid Product Sales Total Gallons
Liquid Product Sales Total Dollars

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts

Contractors & Outside Professional Servi

Gas Proc Tax/Other Taxes
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional Fees
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Allocatio

Proprietary box checked

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

June 27, 2008

MINERALS MANAGEMENT SERVICE
MINERALS REVENUE MANAGEMENT
DOCUMENT PROCESSING SECTION
JUN 30 2008
RECEIVED
LAKEWOOD, COLORADO

Minerals Management Service
Minerals Revenue Management
Attn: Mike Ernest
PO Box 25165, Mail Stop 392B2
Denver Colorado 80225-0165

Re: Documents required by settlement agreement between MMS and Williams Production Company LLC

Dear Mike,

Here are the documents you requested related to the costs associated with the Milogro and Ignacio plants and the related gathering systems (Manzanares and San Juan) for 2007 accounting period. Williams Production Company, LLC, payor code 31070, has requested a 90-day extension to file Form MMS-4109 and Form MMS-4295 for the 2007 production periods. Willi(B)(4)pays royalty to the Jicarilla(B)(4)che Tribe and to the Southern Ute Tribe (B)(7)(e) (B)(7)(e)

Thank you,

Morris Miller, CPA
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

Encls: Percentage Split between Gathering and processing Costs
Manzanares Gathering
Milagro Processing
San Juan Gathering System
Ignacio Gas Plant

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
June 2, 2008

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*								
	2007	2006	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities									
Processing	(B)(4)								
Gathering	(B)(5)								
	(B)(7)(e)								
Milagro/Manzanares Facilities									
Treating	(B)(4)								
Gathering	(B)(5)								
	(B)(7)(e)								

* These percentages were calculated using annual transportation and processing allowance forms. Line 2a on both forms

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

[1] PAYOR NAME AND COD WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS PO BOX 3102

CITY TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: Manzanares System

PRODUCT CODE 04

PERIOD: 01/01/07 to 12/31/07

(a) Segment Name or Number From	To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.									
			$	$		$	$		3
									4
									5
									6
									7
		TOTALS	$	0 $	0			$ 0	8
						Partial A total Cost	Partial A Total Quan =	$ Gas Rate / Mcf	9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Allowance rate for transporting NGL'S or Sulfer from the lease to plant.

(B)(4)

Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT.

Manzanares System	Pipeline						11
							12
							13
	TOTALS		$			$	14

(B)(7)(e)

(B)(4)

(B)(5)

(B)(7)(e)

(B)(4)

(B)(5)

(B)(7)(e)

(B)(4)

(B)(5)

(B)(7)(e)

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products.

Part B Total Cost Part B Total Quantity = Product Rate 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

Allowance Rate 16

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FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR: WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

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FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/07 to 12/31/07

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1	
Operations Labor		2	
Utilities/Fuel		3	
Materials		4	
Ad Valorem Property Taxes		5	
Rent		6	
Supplies, Facilities & Cost Assignment		7	(B)(4)
Other (specify). Attach Supplemental Schedule 1A		8	(B)(5)
as necessary. See A.		9	(B)(7)(e)
Total Operating Costs -- Subtotal	$	10	

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11	
Contractor Services		12	
Materials		13	(B)(4)
Other (specify). Attach Supplemental Schedule 1A		14	(B)(5)
as necessary. See B.		15	(B)(7)(e)
Total Maintenance Costs -- Subtotal	$	16	

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	17	
Outside Professional Services		18	
Other (specify) use Supplemental Schedule 1A See C.		19	(B)(4)
Total Overhead Allocation	$	20	(B)(5)
			(B)(7)(e)
D. Total Operating and Maintenance Costs	$	21	
(Line 10 + line 16 + line 20)			

E. Allocated to Segment
Lease Volume (B)(4) (B)(5) (B)(7)(e) / Total throughput (B)(4) (B)(5) (B)(7)(e)

	$	22	(B)(4)
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$	23	(B)(5) (B)(7)(e)

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[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT OPERATIONS, MAINTENANCE,
AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe

Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Misc	
TOTAL	$

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2		3	4		5	6	7
Expenditure Item	Initial Capital Investment and Date Placed in Service		Salvage Value	Depreciable Life/Years of Depreciation Taken to Date		Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	1/	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)		$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)
Gathering Facilities		1/						
Field Compression		1/						
Purification Equipment		1/						
Other Equipment		1/						
Office Furniture & Fixtures		1/						

Totals $ (B)(4) (B)(5) (B)(7)(e)

Allocated to Segment (from line 22, Schedule 1A) $ (B)(4) (B)(5) (B)(7)(e)
Segment Depreciation and Capital Expenditure
(Line 8 x line 9) Enter in column g and e, Schedule 1

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FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - Manzanares Gathering

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Gathered Volumes - MCF
Williams Production gathered volumes - MCF

Gas Plant
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Transportation Equipment
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
Office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FOOTNOTES:

1/ Due to the numerous small additions made to the system each year, it is impossible to specifically identify when a particular category was initially placed in service.

2/ [redacted]

3/ [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

LEASE NUMBER:

1 PAYOR NAME AND CODI WILLIAMS PRODUCTION COMPANY / 31070

AGREEMENT NUMBER:

ADDRESS PO BOX 3102

FACILITY NAME/ID NUMBER: MILAGRO (PLANTS)

CITY TULSA STATE: OKLAHOMA ZIP: 74101

PRODUCT CODE 04

PERIOD: 01/01/07 to 12/31/07

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Segment Name or Number From To	Mode of Transportation	Non-Arm's-Length/ Indicator	Non-Arm's-Length Operating Costs	Depreciation	Rate of Return	Undepreciated Capital Investment at Beginning of Year	Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
		$	$		$	$		3
								4
								5
								6
								7
	TOTALS	$	0 $	0		$	0	8
						J.	$	9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Partial A total Cost Partial A Total Qua = Gas Rate / Mcf

Allowance rate for transporting NGL'S or Sulfer from the lease to plant.

Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT.

Manzanares System	Plants							
								11
								12
	TOTALS	$	(B)(4) (B)(5) (B)(7)(e)			$	(B)(4) (B)(5) (B)(7)(e)	14

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products.

Part B Total Cost (B)(4) (B)(5) (B)(7)(e) Part B Total Quantity = Product (B)(4) (B)(5) (B)(7)(e) 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 16h if the allowance is for sulfur; or 10h and 16h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

16
Allowance Rate

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FORM MMS-4295 SCHEDULE 1 (revised 08/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

PLANT NAME & OPERATOR:

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$					1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period: 01/01/07 to 12/31/07

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies & Facilities		7
Other (specify). Attach Supplemental Schedule 1A		8
as necessary. See A.		9
Total Operating Costs – Subtotal	$	10

(B)(4)
(B)(5)
(B)(7)(e)

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Contractor Services		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A		14
as necessary. See B.		15
Total Maintenance Costs – Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21
E. Allocated to Segment Lease Volume (B)(4) / Total throughput (B)(4) (B)(5) (B)(7)(e)	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d, Schedule 1	$	23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

☒ PROPRIETARY

☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No. Milagro (Plants)
Segment ID No:
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT OPERATIONS, MAINTENANCE,
AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A
EXPENDITURES

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
TOTAL	$

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)
Extraction & Refining						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals $ (B)(4) (B)(5) (B)(7)(e) 8

Allocated to Segment (from line 22, Schedule 1A) (B)(4) (B)(5) (B)(7)(e) 9

Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1 10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - Milagro Plants

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Gathered Volumes - MCF
Williams Production Share Gathered Volumes - M

Gas Plant
Structure & Improvements
Extraction & Refining
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Gas Processors Tax
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
Office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND COD: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: San Juan Gathering System

PRODUCT CODE: 04

PERIOD: 01/01/07 to 12/31/07

(a) Segment Name or Number From	To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.									
			$	$		$	$		3
									4
									5
									6
									7
		TOTALS	$						8
									9

(B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e)

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Partial A total Cost | Partial A Total Quan = Gas Rate / Mcf

Allowance rate for transporting NGL'S or Sulfer from the lease to plant.

Sulfer Rate/LT | NGL Rate/Gal | 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

San Juan Gathering System Pipeline		4	$					11
								12
								13
	TOTALS		$				$	14

(B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e)

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. = 15

Part B Total Cost | Part B Total Quantity | Product Rate

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

(B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e)

Allowance Rate | 16

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FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1– NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/07 to 12/31/07

SCHEDULE 1A – NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies, Facilities & Cost Assignment		7
Other (specify). Attach Supplemental Schedule 1A		8
as necessary. See A.		9
Total Operating Costs – Subtotal	$	10

(B)(4)
(B)(5)
(B)(7)(e)

B. Lessee's Maintenance Costs

Contractors & Outside Professional Services	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A		14
as necessary. See B.		15
Total Maintenance Costs – Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21
E. Allocated to Segment Lease Volume	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$	23

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

☒ PROPRIETARY

☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
TOTAL	$

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Production Company/3107
Lease Number:
Agreement Number:
Facility ID No: San Juan Gathering System
Segment ID No:
PERIOD: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)
Gathering Facilities						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals $ (B)(4) (B)(5) (B)(7)(e) 8

Allocated to Segment (from line 22, Schedule 1A) 9

Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1 (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - San Juan Gathering

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Gathered Volumes - MCF
Williams Production Share Gathered Volumes - I

Gas Plant
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Transportation Equipment
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/07 to 12/31/07

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
		303,009,545	(B)(4) (B)(5) (B)(7)(e)
	TOTALS	303,009,545	TOTALS (B)(4) (B)(5) (B)(7)(e)

Enter as the non-arms length Product Processing Allowance Rate the unit processing cos total non-arm's length processing costs (column d) divided by total sales quantity (col The allowance rate is to be carried to 6 decimal places; i.e., (B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [x] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR: IGNACIO CONDITIONING PLANT WILLIAMS GAS PROCESSING

PRODUCT CODE: 07

PERIOD: 01/01/07 to 12/31/07

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(4) (B)(5) (B)(7)(e)	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)					(B)(4) (B)(5) (B)(7)(e)	4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

A. Lessee's Operating Costs

Labor	$	1
Utilities		2
Plant Fuel		3
Rent		4
Ad Valorem Property Taxes		5
Employee Expenses & Vehicle Costs		6
Office Supplies & Expenses	0	7
Other (specify). Attach Supplemental Schedule 2A as necessary. (See "A" items on Supplemental 2A)		8
		9
Total Operating Costs – Subtotal	$	10

(B)(4)
(B)(5)
(B)(7)(e)

B. Lessee's Maintenance Costs

Materials & Parts	$	11
Contractors & Outside Professional Services		12
Utilities		13
Other (specify). Attach Supplemental Schedule 2 A as necessary. (See "B" items on Supplemental 2A)		14
		15
Total Maintenance Costs – Subtotal	$	16

(B)(4)
(B)(5)
(B)(7)(e)

C. Lessee's Overhead Allocation (specify)

Administrative and General Costs	$	17
(See "C" items on Supplemental 2A)		18
Other (specify) use Supplemental Schedule 2A		19
Total Overhead Allocation	$	20

(B)(4)
(B)(5)
(B)(7)(e)

D. Total Operating and Maintenance Costs $ 21
(Line 10 + line 16 + line 20)

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY
[ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING
FACILITIES OPERATIONS, MAINTENANCE
AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$	
Environmental		(B)(4)
Property Insurance		(B)(5)
Cogeneration Revenue Acct 495		(B)(7)(e)
Overhead and Expense Reduction Allocation	$	
TOTAL	$	(B)(4) (B)(5) (B)(7)(e)
Item "B" :		
Gas Proc Tax/Other Taxes	$	
TOTAL		
Item "C":		
A&G Salaries & Payroll Loading		
Employee Expenses & Vehicle Costs		
G&A office Supplies & Expenses		
G&A Outside Services & Professional Fees		
IT allocation		
OTS/WES allocation		(B)(4)
Corporate OH Allocation		(B)(5)
Allocated G&A costs		(B)(7)(e)
Miscellaneous		
Property / Liability Insurance		
TOTAL		

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check [X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/07 to 12/31/07

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

Expenditure item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)
Extraction & Refining						
Comp. and Recompressor						
Other Equipment						
8 Totals				$ (B)(4) (B)(5) (B)(7)(e)		

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

DATA FILE IGNACIO PLANT

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment
Tota

Liquid Product Sales Total Gallons X
Liquid Product Sales Total Dollars X

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment
Tota

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts

Contractors & Outside Professional Servi

Gas Proc Tax/Other Taxes
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional Fees
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Allocatio

Proprietary box checked

To

(B)(4)
(B)(5)
(B)(7)(e)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

APR - 4 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

MMS-FEDCAM-08-0067
Mail Stop 392B2

Mr. Morris Miller
Senior Accountant, Regulatory Reporting
Williams Production Company, LLC
One Williams Center
Tulsa, Oklahoma 74172

Dear Mr. Miller:

(B)(4)

regarding the Milagro and Ignacio plants (Plants) and associated transportation systems for calendar year 2007.

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Producers sending production to the Plants are often charged a bundled fee for both transportation and carbon dioxide (CO^2) removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, MMS requires this information in order to distinguish allowable from unallowable costs included in that bundled fee. A sample of the summary breakdown that Williams has previously provided is shown on the Enclosure.

The MMS also requests documentation supporting the calculations. The information required in support of transportation costs is located at 30 CFR § 206.157 (b) (2) (i) – (v) (2007). The information required in support of processing costs is located at 30 CFR § 206.159 (b) (2) (i) – (v) (2007). The information may be presented in the format prescribed by MMS Forms 4295 and 4109 (Forms), which you are required to submit for Indian leases per 30 CFR § 206.178 (b) (ii) (2007) and 30 CFR § 206.180 (b) (ii) (2007). The MMS is not mandating use of these forms for this request, but the Forms are an acceptable format for the information. Williams must also provide MMS a reconciliation of cost data to the percentages applied to the rates. Please provide MMS the name and phone number of a person MMS can contact if there are any questions regarding your response.

TAKE PRIDE IN AMERICA

We expect your response within 60 days of receipt of this notification. If you need any additional information, please call Mike Ernest at (303) 231-3747 or write to us at the address above.

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

Enclosure

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
May 26, 2006

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*							
	2006	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities								
Processing					(B)(4)			
Gathering					(B)(5)			
Milagro/Manzanares Facilities					(B)(7)(e)			
Treating					(B)(4)			
Gathering					(B)(5)			
					(B)(7)(e)			

* These percentages were calculated using annual transportation and processing allowance forms. Line 2a on both forms

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

MMS-FEDCAM-08-0067
Mail Stop 392B2

Mr. Morris Miller
Senior Accountant, Regulatory Reporting
Williams Production Company, LLC
One Williams Center
Tulsa, Oklahoma 74172

Dear Mr. Miller:

(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
he MMS is requesting information regarding the Milagro and Ignacio plants (Plants) and associated transportation systems for calendar year 2007.

(B)(4)
(B)(7)(e)
(B)(4)
(B)(7)(e)
Producers sending production to the Plants are often charged a bundled fee for both transportation and carbon dioxide (CO^2) removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, MMS requires this information in order to distinguish allowable from unallowable costs included in that bundled fee. A sample of the summary breakdown that Williams has previously provided is shown on the Enclosure.

The MMS also requests documentation supporting the calculations. The information required in support of transportation costs is located at 30 CFR § 206.157 (b) (2) (i) – (v) (2007). The information required in support of processing costs is located at 30 CFR § 206.159 (b) (2) (i) – (v) (2007). The information may be presented in the format prescribed by MMS Forms 4295 and 4109 (Forms), which you are required to submit for Indian leases per 30 CFR § 206.178 (b) (ii) (2007) and 30 CFR § 206.180 (b) (ii) (2007). The MMS is not mandating use of these forms for this request, but the Forms are an acceptable format for the information. Williams must also provide MMS a reconciliation of cost data to the percentages applied to the rates. Please provide MMS the name and phone number of a person MMS can contact if there are any questions regarding your response.

We expect your response within 60 days of receipt of this notification. If you need any additional information, please call Mike Ernest at (303) 231-3747 or write to us at the address above.

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

N: Common: CAM/FED/Shared/FEDCAM: Williams Production Company 2008.doc
MErnest: 3/17/08 – (303) 231-3747
Finalized: 3/17/08: RJoiner – (303) 231-3753
Corrections made 3/19/08: RJoiner
Corrections made 3/21/08: MErnest

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

MMS-FEDCAM-08-0067
Mail Stop 392B2

Mr. Morris Miller
Senior Accountant, Regulatory Reporting
Williams Production Company, LLC
One Williams Center
Tulsa, Oklahoma 74172

Dear Mr. Miller:

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e) the MMS is requesting information regarding the Milagro and Ignacio plants (Plants) and associated transportation systems for calendar year 2007.

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e) Producers sending production to the Plants are often charged a bundled fee for both transportation and carbon dioxide (CO^2) removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, MMS Requires this information in order to distinguish allowable from unallowable costs included in that bundled fee. A sample of the summary breakdown that Williams has previously provided is shown on the Enclosure.

The MMS also requests documentation supporting the calculations. The information required in support of transportation costs is located at 30 CFR § 206.157 (b)(2)(i) – (iv) (2007). The information required in support of processing costs is located at 30 CFR § 206.159 (b) ~~(i) – (iv)~~ (2)(i) - (iv) (2007). The information may be presented in the format prescribed by MMS Forms 4295 and 4109 (Forms), which you are required to submit for Indian leases per 30 CFR § 206.178 (b) (ii) (2007) and 30 CFR § 206.180 (b) (ii) (2007). The MMS is not mandating use of these forms for this request, but the Forms are an acceptable format for the information. Williams must also provide MMS a reconciliation of cost data to the percentages applied to the rates. Please provide MMS the name and phone number of a person MMS can contact if there are any questions regarding your response.

90 *

We expect your response within 60 days of receipt of this notification. If you need any additional information, please call Mike Ernest at (303) 231-3747 or write to us at the address above.

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

(B)(4)
(B)(5)
(B)(7)(e)

N: Common: CAM/FED/Shared/FEDCAM: Williams Production Company 2008.doc
MErnest: 3/17/08 – (303) 231-3747
Finalized: 3/17/08: RJoiner – (303) 231-3753
Corrections made 3/19/08: RJoiner

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

MMS-FEDCAM-08-0067
Mail Stop 392B2

Mr. Morris Miller
Senior Accountant, Regulatory Reporting
Williams Production Company, LLC
One Williams Center
Tulsa, Oklahoma 74172

Dear Mr. Miller:

(B)(4)
(B)(5)
(B)(7)(e)

Information regarding the Milagro and Ignacio Plants and associated transportation systems for calendar year 2007.

Producers sending production to these plants are often charged a bundled fee for both transportation and CO^2 removal. Since costs associated with non-royalty bearing products such as CO^2 are not allowable deductions from royalties, we need to be able to distinguish allowable from unallowable costs included in that bundled fee when we conduct audits of royalties paid on Federal and Indian leases. A sample of the summary breakdown that Williams has previously provided is shown on the Enclosure.

We also request documentation supporting the calculations. The information required in support of transportation costs can be found at 30 CFR § 206.157 (b) (i) – (iv) (2004). The information required in support of processing costs can be found at 30 CFR § 206.159 (b) (i) – (iv) (2004). The information may be presented in the format prescribed by MMS Forms 4295 and 4109, which you are required to submit for Indian leases per 30 CFR § 206.178 (b) (ii) (2004) and 30 CFR § 206.180 (b) (ii) (2004). We are not mandating use of these forms for this request, but they are an acceptable format for the information we are requesting. We also request that you provide us a reconciliation of cost data to the percentages to be applied to the rates. Please also provide us the name and phone number of a person we can contact if we have any questions regarding your response.

TAKE PRIDE IN AMERICA

We expect your response within ~~90~~ 60 days of receipt of this notification~~, unless you request an extension of time in writing~~. If you need any additional information, please call Mike Ernest at (303) 231-3747 or write to ~~us~~ at the address above.

OK

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

March 17, 2008

Minerals Management Service
Minerals Revenue Management
ATTN: Mike Ernest
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Re: Request for 90 Day Extension to Provide Milagro and Ignacio Documentation of Unbundled Charges

Dear Mike

Williams Production Company, LLC, Payor Code 31070, has requested a 90 day extension to file Form MMS-4109, and Form MMS-4295 for the 2007 production periods. Williams pays royalty to the Jicarila-Apache Tribe and the Southern Ute Tribe (B)(4)

Thank You

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

Encl: Request for 90-Day Extension to File Allowance Forms

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

MAR 01 2007

Mr. Morris Miller
Williams Production Company, LLC
One William Center
Tulsa, Oklahoma 74101

07-0014
MMS/FEDCAM

Dear Mr. Miller:

This responds to your letter dated February 13, 2007 to Shirley Burhop, subject "Request for 90-Day Extension to Provide Milagro and Ignacio Documentation of Unbundled Charges."

The request is approved. The new due date for responding is June 30, 2007. We are authorizing an extension until that date so that you can coordinate this response with the submission of Forms MMS-4109 and MMS-4295 to Indian Compliance and Asset Management. You requested a 90-day extension for that action in a February 13, 2007 letter to Theresa Bayani.

If you have any questions, please call Shirley Burhop at (303)-231-3434.

Sincerely,

Shirley J. Burhop, Manager
FEDCAM Western Team

cc: Dave Guzy, Manager, Northern Region
Indian CAM

TAKE PRIDE IN AMERICA

February 13, 2007

Minerals Management Service
Minerals Revenue Management
Indian Oil and Gas Compliance and Asset
Management (Indian CAM)
ATTN: Thresa Bayani
P.O. Box 25165, MS 396B2
Denver, CO 80225-0165

Subject: Request for 90-Day extension to file Form MMS-4009 and MMS-1295

Dear Thresa

Williams Production Company, LLC, Payor Code 31070, request a 90-Day extension to file Form MMS-4109 and Form MMS-4295 for the 2006 production periods. Williams pays royalty to the Jicarilla Apache Tribe and to the Southern Ute Tribe (B)(4) (B)(4)

I have attached a list of the MMS Lease Numbers .

Thank You,

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

CC: Minerals Management Services
Minerals Revenue Management
ATTN: Shirley Burhop
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Encl: Listing of Indian Leases

February 13, 2007

Minerals Management Service
Minerals Revenue Management
ATTN: Shirley Burhop
P.O. Box 25165, MS 392B2
Denver, CO 80225-0165

Re: Request for 90 Day Extension to Provide Milagro and Ignacio Documentation of Unbundled Charges

Dear Shirley

Williams Production Company, LLC, Payor Code 31070, has requested a 90 day extension to file Form MMS-4109, and Form MMS-4295 for the 2006 production periods. Williams pays royalty to the Jicarila-Apache Tribe and the Southern Ute Tribe (B)(4)

We also need and additional 90 days to complete the calculations you requested in your Letter to Williams dated January 30, 2007.

Thank You

Morris Miller
Supervisor, MMS Royalty Reporting Group
Williams Production Company, LLC

Encl: Request for 90-Day Extension to File Allowance Forms

EXPLORATION & PRODUCTION
ONE WILLIAMS CENTER
PO BOX 3102
TULSA, OK 74101-3102
918.573.2000

FACSIMILE TRANSMITTAL SHEET

TO: MIKE ERNEST	DATE: 2-28-2008
COMPANY: Minerals Management Service	SENDER'S NAME: Jim Thomas
FAX NUMBER: 303-231-3744	TOTAL NO. OF PAGES, INCLUDING COVER: 4
PHONE NUMBER: 303-231-3747	SENDER'S PHONE: 918-573-0496
SUBJECT: Allowance filing Calender Year 2007	SENDER'S FAX:

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

The information contained in this facsimile message is privileged, confidential and protected from disclosure. If you think you have received this fax in error, if you do not receive all pages, or if you have any problem receiving this transmission, please call 918.573.2498.

Per our Conversation, See Attached letter from Shirley Burhop

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/06 to 12/31/06

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
			(B)(4) (B)(5) (B)(7)(e)
TOTALS		(B)(4) (B)(5) (B)(7)(e)	

Enter as the non-arms length Product Processing Allowance Rate the unit processing cost [total non-arm's length processing costs (column d) divided by total sales quantity (col (B)(4) (B)(5) (B)(7)(e) The allowance rate is to be carried to 6 decimal places; i.e., (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NON-PROPRIETARY

FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2 Expenditure item	3 Initial Capital Investment and Date Placed in Service	4 Salvage Value	5 Depreciable Life/Years of Depreciation Taken to Date	6 Undepreciated Capital Investment at Beginning of Year	7 Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$			$		
Extraction & Refining						
Comp. and Recompressor						
Other Equipment						
8 Totals				$		

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND COD WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS PO BOX 3102

CITY TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: Manzanares System

PRODUCT CODE 04

PERIOD: 01/01/06 to 12/31/06

(a) Segment Name or Number From To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
			$	$		$	$	3
								4
								5
	TOTALS		$					

(B)(4)
(B)(5)
(B)(7)(e)

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Allowance rate for transporting NGL'S or Sulfar from the lease to plant. Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT.

Manzanares System	Pipeline	4	$				11
							12
							13
	TOTALS		$			$	14

(B)(4)
(B)(5)
(B)(7)(e)

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. Part B = Product Rate 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval. Allowance Rate 16

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

PLANT NAME & OPERATOR:

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(4) (B)(5) (B)(7)(e)	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$ (B)(4) (B)(5) (B)(7)(e)	5

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment		
Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies, Facilities & Cost Assignment		7
Other (specify). Attach Supplemental Schedule 1A		8
as necessary. See A.		9
Total Operating Costs -- Subtotal	$	10
B. Lessee's Maintenance Costs		
Maintenance Supervision	$	11
Contractor Services		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A		14
as necessary. See B.		15
Total Maintenance Costs -- Subtotal	$	16
C. Lessee's Overhead Allocation (specify)		
Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21
E. Allocated to Segment Lease Volume (B)(4) (B)(5) (B)(7)(e) / Total throughput (B)(4) (B)(5) (B)(7)(e)	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$	23

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[x] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe		
Item "A" : Transportation Equipment	$	(B)(4) (B)(5) (B)(7)(e)
Employee Expenses/Auto		
Utilities		
Compression of Gas by Others		
Environmental Surveys & Permits		
Insurance		
Miscellaneous		
TOTAL	$	
Item "B" : Supplies	$	
Utilities		
Rentals		
Transportation Equipment Costs		
Contractor Services		
Outside Professional Services		
TOTAL	$	
Item "C": Overhead Allocation	$	(B)(4) (B)(5) (B)(7)(e)
Employee Expenses		
Office expenses		
IT Allocation		
Oper & Tech Serv Allocation		
Corporate OH Allocation		
Midstream OH Allocation		
Misc		
TOTAL	$	

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2	3	4	5	6	7
Expenditure item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)
Gathering Facilities						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals	$ (B)(4) (B)(5) (B)(7)(e)	8
Allocated to Segment (from line 22, Schedule 1A)		9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1		10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - Manzanares Gathering

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Gathered Volumes - MCF
Williams Production gathered volumes - MCF

Gas Plant
Structure & Improvements
Gathering Facilities
Field Compression
Purification Equipment
Other Equipment
Office Furniture & Fixtures

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Transportation Equipment
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
Office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: MILAGRO (PLANTS)

PRODUCT CODE 04

PERIOD: 01/01/06 to 12/31/06

(a) Segment Name or Number From To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
		$	$		$	$	$	3
								4
								5
								6
	TOTALS	$						7
								8
								9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Allowance rate for transporting NGL'S or Sulfer from the lease to plant. 10

Sulfer Rate/LT NGL Rate/Gal

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

Manzanares System	Plants							11
								12
	TOTALS	$					$	13
								14

(B)(4)
(B)(5)
(B)(7)(e)

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. = 15

Part B Total Cost Part B Total Quantity Product Rate

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval. 16

Allowance Rate

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR: WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4) (B)(5) (B)(7)(e)

(B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period: 01/01/06 to 12/31/06

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies & Facilities		7
Other (specify). Attach Supplemental Schedule 1A as necessary. See A.		8
		9
Total Operating Costs -- Subtotal	$	10

(B)(4) (B)(5) (B)(7)(e)

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Contractor Services		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A as necessary. See B.		14
		15
Total Maintenance Costs -- Subtotal	$	16

(B)(4) (B)(5) (B)(7)(e)

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20

(B)(4) (B)(5) (B)(7)(e)

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21

E. Allocated to Segment (B)(4) (B)(5) (B)(7)(e) Lease Volume	0 / 0	Total throughput (B)(4) (B)(5) (B)(7)(e)	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d, Schedule 1			$	23

(B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No. Milagro (Plants)
Segment ID No:
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A
EXPENDITURES

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
TOTAL	$

(B)(3)(34)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

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U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2	3	4	5	6	7
Expenditure Item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)		$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)
Extraction & Refining						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals $ (B)(4) (B)(5) (B)(7)(e) 8

Allocated to Segment (from line 22, Schedule 1A) 9
Segment Depreciation and Capital Expenditure 10
(Line 8 x line 9) Enter in column g and e, Schedule 1 (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - Milagro Plants

DATE:

Accumulated Depreciation Prior Year	
Structure & Improvements	Acct
Extraction & Refining	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct
Gathered Volumes - MCF	
Williams Production Share Gathered Volumes - MCF	
Gas Plant	
Structure & Improvements	Acct
Extraction & Refining	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct
	Total
Standard and Poors Rate of Return	
Ad Valorem Taxes	
Operations Supervision and Engineering	
Operations Labor	
Gathering Fuel	
Operations Materials	
Rent	
Capitalized O&M expenses	
Contractors & Outside Professional Services	
Maintenance Materials	
Gas Processors Tax	
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
G&A Salaries and Benefits	
Outside Professional Services	
Rent	
Employee Expenses	
Office expenses	
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
Cogeneration Revenue Acct 495	
Proprietary box checked	

(B)(4)
(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$		(B)(4) (B)(5) (B)(7)(e)			1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

DATA FILE - San Juan Gathering

DATE:

Accumulated Depreciation Prior Year	
Structure & Improvements	Acct
Gathering Facilities	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct
Gathered Volumes - MCF	
Williams Production Share Gathered Volumes - MCF	
Gas Plant	
Structure & Improvements	Acct
Gathering Facilities	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct
	Total
Standard and Poors Rate of Return	
Ad Valorem Taxes	
Operations Supervision and Engineering	
Operations Labor	
Gathering Fuel	7
Operations Materials	7
Rent	7
Capitalized O&M expenses	7
Contractors & Outside Professional Services	7
Maintenance Materials	
Transportation Equipment	7
Employee Expenses/Auto	7
Utilities	7
Compression of Gas by Others	7
Environmental Surveys & Permits	9
Insurance	9
Miscellaneous	9
G&A Salaries and Benefits	9
Outside Professional Services	9
Rent	9
Employee Expenses	9
office expenses	
IT allocation	9
OTS/WES allocation	9
Corporate OH Allocation	
Midstream OH Allocation	
Miscellaneous	
Cogeneration Revenue Acct 495	
Proprietary box checked	

(B)(4)

(B)(5)

(B)(7)(e)

June 21, 2007

Minerals Management Service
Minerals Revenue Management
Attn: Shirely Burhop
PO Box 25165, Mail Stop 392B2
Denver Colorado 80225-0165

Re: Documents required by settlement agreement between MMS and Williams Production Company LLC

Dear Shirely

Here are the documents you requested related to the costs associated with the Milogro and Ignacio plants and the related gathering systems (Manzanares and San Juan) for 2006 accounting period. Williams Production Company, LLC, payor code 31070, has requested a 90-day extension to file Form MMS-4109 and Form MMS-4295 for the 2006 production periods. Williams pays royalty to the Jicarilla-Apache Tribe and to the Southern Ute Tribe (B)(4)

Thank you,

Morris Miller, CPA
Supervisor, Federal Royalty Reporting
Williams Production Company, LLC
Office: 918-573-1158

Encls: Percentage Split between Gathering and processing Costs
Manzanares Gathering
Milagro Processing
San Juan Gaterhing System
Ignacio Gas Plant

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
May 26, 2006

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*							
	2006	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities								
Processing								
Gathering								
Milagro/Manzanares Facilities								
Treating								
Gathering								

(B)(4)
(B)(5)
(B)(7)(e)
(B)(4)
(B)(5)
(B)(7)(e)

* These percentages were calculated using annual transportation and processing allowance forms. Line 2a on both forms

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:

IGNACIO CONDITIONING PLANT

WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/06 to 12/31/06

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity		(d) Non-Arm's-Length Processing Costs ($)
			(B)(4)	
			(B)(5)	
			(B)(7)(e)	
	TOTALS		(B)(4) (B)(5) (B)(7)(e)	

2

Enter as the non-arms length Product Processing Allowance rate the unit processing cost [total non-arm's length processing costs (column d) divided by total sales quantity (col (B)(4) (B)(5) (B)(7)(e) The allowance rate is to be carried to 6 decimal places; i.e., (B)(4) (B)(5) (B)(7)(e)

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FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR: IGNACIO CONDITIONING PLANT

WILLIAMS GAS PROCESSING

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$					1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

A. Lessee's Operating Costs

Labor	$	1
Utilities		2
Plant Fuel		3
Rent		4
Ad Valorem Property Taxes	(B)(4) (B)(5) (B)(7)(e)	5
Employee Expenses & Vehicle Costs		6
Office Supplies & Expenses		7
Other (specify). Attach Supplemental Schedule 2A		8
as necessary. (See "A" items on Supplemental 2A)		9
Total Operating Costs – Subtotal	$ (B)(4) (B)(5) (B)(7)(e)	10

B. Lessee's Maintenance Costs

Materials & Parts	$	11
Contractors & Outside Professional Services	(B)(4) (B)(5) (B)(7)(e)	12
Utilities		13
Other (specify). Attach Supplemental Schedule 2 A		14
as necessary. (See "B" items on Supplemental 2A)	(B)(4) (B)(5) (B)(7)(e)	15
Total Maintenance Costs – Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

Administrative and General Costs	$	17
(See 'C" items on Supplemental 2A)	(B)(4) (B)(5) (B)(7)(e)	18
Other (specify) use Supplemental Schedule 2A		19
Total Overhead Allocation	$ (B)(4) (B)(5) (B)(7)(e)	20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$ (B)(4) (B)(5) (B)(7)(e)	21

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$	
Environmental		
Property Insurance		
Cogeneration Revenue Acct 495		(B)(4)
Overhead and Expense Reduction Allocation	$	(B)(5)
		(B)(7)(e)
TOTAL	$	(B)(4)
Item "B" :		(B)(5)
0		(B)(7)(e)
Gas Proc Tax/Other Taxes	$	(B)(5)
		(B)(7)(e)
TOTAL		(B)(4)
Item "C":		(B)(5)
A&G Salaries & Payroll Loading		(B)(7)(e)
Employee Expenses & Vehicle Costs		
G&A office Supplies & Expenses		(B)(4)
G&A Outside Services & Professional Fees		(B)(5)
IT allocation		(B)(7)(e)
OTS/WES allocation		
Corporate OH Allocation		
Allocated G&A costs		
Miscellaneous		
Property / Liability Insurance		
TOTAL		

Note: The above are direct charges by business unit and

do not include GRI and ACA.

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[ ] NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2 Expenditure item	3 Initial Capital Investment and Date Placed in Service	4 Salvage Value	5 Depreciable Life/Years of Depreciation Taken to Date	6 Undepreciated Capital Investment at Beginning of Year	Depreciation	7 Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)
Extraction & Refining						
Comp. and Recompressor						
Other Equipment						
8 Totals	$ (B)(4) (B)(5) (B)(7)(e)					

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

DATA FILE IGNACIO PLANT

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements
Extraction & Refining
Compressor and Recompressor
Other Equipment
Total

Liquid Product Sales Total Gallons X
Liquid Product Sales Total Dollars X

Gas Plant
Structure & Improvements
Extraction & Refining
Comp. and Recompressor
Other Equipment
Total

Standard and Poors Rate of Return

Ad Valorem Taxes from Tax Dept
Labor and Payroll Loading
Utilities
Plant Fuel
Rent
Office Supplies & Expenses
Employee Expenses & Vehicle Costs
Materials & Parts

Contractors & Outside Professional Servi

Gas Proc Tax/Other Taxes
Maintenance Materials
A&G Salaries & Payroll Loading
Employee Expenses & Vehicle Costs
G&A office Supplies & Expenses
G&A Outside Services & Professional Fees
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous
Property Insurance

Environmental
Property Insurance
Cogeneration Revenue Acct 495
Overhead and Expense Reduction Allocatio

Proprietary box checked

Total

(B)(4)

(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND COD WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS PO BOX 3102

CITY TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: San Juan Gathering System

PRODUCT CODE 04

PERIOD: 01/01/06 to 12/31/06

(a) Segment Name or Number From To	(b) Mode of Transportation	(c) Non-Arm's-Length/ Indicator	(d) Non-Arm's-Length Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
			$	$		$	$	3
								4
								5
								6
								7
	TOTALS		$ 0	$ 0			$ 0	8
					Partial A total Cost	J. Partial A Total Quar =	$ Gas Rate / Mcf	9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Allowance rate for transporting NGL'S or Sulfer from the lease to plant.

Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

San Juan Gathering Systen Pipeline								11
								12
								13
	TOTALS		$ (B)(4) (B)(5) (B)(7)(e)				$ (B)(4) (B)(5) (B)(7)(e)	14

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. (B)(4) (B)(5) (B)(7)(e) = Product Rate (B)(4) (B)(5) (B)(7)(e) 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

Allowance Rate (B)(7)(e) 16

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

1 PAYOR NAME AND CODI WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS PO BOX 3102

CITY TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: MILAGRO (PLANTS)

PRODUCT CODE 04

PERIOD: 01/01/06 to 12/31/06

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Segment Name or Number From To	Mode of Transportation	Non-Arm's-Length/ Indicator	Non-Arm's-Length Operating Costs	Depreciation	Rate of Return	Undepreciated Capital Investment at Beginning of Year	Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
		$	$		$	$	$	3
								4
								5
								6
								7
	TOTALS	$						

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Allowance rate for transporting NGL'S or Sulfer from the lease to plant. Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT.

Manzanares System	Plants	(B)(4) (B)(5) (B)(7)(e)						11
								12
				(B)(4) (B)(5) (B)(7)(e)			(B)(4) (B)(5) (B)(7)(e)	13
	TOTALS	$					$	14

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. (B)(4) (B)(5) (B)(7)(e) Part B Total Cost / Part B Total Quantity = Produ (B)(4) (B)(5) (B)(7)(e) 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

Allowance Rate (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR

Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR: WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(4) (B)(5) (B)(7)(e)	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$ (B)(4) (B)(5) (B)(7)(e)	5

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period: 01/01/06 to 12/31/06

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	(B)(4) (B)(5) (B)(7)(e)	1
Operations Labor			2
Utilities/Fuel			3
Materials			4
Ad Valorem Property Taxes			5
Rent			6
Supplies & Facilities			7
Other (specify). Attach Supplemental Schedule 1A as necessary. See A.			8
			9
Total Operating Costs -- Subtotal	$		10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	(B)(4) (B)(5) (B)(7)(e)	11
Contractor Services			12
Materials			13
Other (specify). Attach Supplemental Schedule 1A as necessary. See B.			14
			15
Total Maintenance Costs – Subtotal	$		16

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	(B)(4) (B)(5) (B)(7)(e)	17
Outside Professional Services			18
Other (specify) use Supplemental Schedule 1A See C.			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$		21

E. Allocated to Segment (B)(4) (B)(5) (B)(7)(e) Lease Volume _____ / Total throughput (B)(4) (B)(5) (B)(7)(e) $ _____ 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1 $ _____ 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Milagro Plants
Segment ID No:
Period 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2	3	4	5	6	7
Expenditure item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)
Extraction & Refining						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals	$ (B)(4) (B)(5) (B)(7)(e)	8
Allocated to Segment (from line 22, Schedule 1A)	(B)(4) (B)(5) (B)(7)(e)	9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1		10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

DATA FILE - Milagro Plants

DATE:

Accumulated Depreciation Prior Year	
Structure & Improvements	Acct
Extraction & Refining	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct

Gathered Volumes - MCF
Williams Production Share Gathered Volumes - MCF

Gas Plant	
Structure & Improvements	Acct
Extraction & Refining	Acct
Field Compression	Acct
Purification Equipment	Acct
Other Equipment	Acct
Office Furniture & Fixtures	Acct
	Total

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Gas Processors Tax
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
Office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

PLANT NAME & OPERATOR:

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4)				1a
Fractionation Facility	$	$ (B)(5)		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)		(B)(7)(e)			$ (B)(4) (B)(5)	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$ (B)(7)(e)	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$ (B)(4) (B)(5)	5

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY (B)(7)(e)

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	(B)(4) (B)(5) (B)(7)(e)	1
Operations Labor			2
Utilities/Fuel			3
Materials			4
Ad Valorem Property Taxes			5
Rent			6
Supplies, Facilities & Cost Assignment			7
Other (specify). Attach Supplemental Schedule 1A			8
as necessary. See A.			9
Total Operating Costs – Subtotal	$		10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	(B)(4) (B)(5) (B)(7)(e)	11
Contractor Services			12
Materials			13
Other (specify). Attach Supplemental Schedule 1A			14
as necessary. See B.			15
Total Maintenance Costs -- Subtotal	$		16

C. Lessee's Overhead Allocation (specify)

Labor and Benefits	$	(B)(4) (B)(5) (B)(7)(e)	17
Outside Professional Services			18
Other (specify) use Supplemental Schedule 1A See C.			19
Total Overhead Allocation	$		20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$		21

E. Allocated to Lease Volum (B)(4) (B)(5) (B)(7)(e) / Total throughput (B)(4) (B)(5) (B)(7)(e) $ _____ 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1 $ _____ 23 (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

[X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Misc	
TOTAL	$

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

DATA FILE - Manzanares Gathering

DATE:

Accumulated Depreciation Prior Year
Structure & Improvements Acct
Gathering Facilities Acct
Field Compression Acct
Purification Equipment Acct
Other Equipment Acct
Office Furniture & Fixtures Acct

Gathered Volumes - MCF
Williams Production gathered volumes - MCF

Gas Plant
Structure & Improvements Acct
Gathering Facilities Acct
Field Compression Acct
Purification Equipment Acct
Other Equipment Acct
Office Furniture & Fixtures Acct
Tota

Standard and Poors Rate of Return

Ad Valorem Taxes
Operations Supervision and Engineering
Operations Labor
Gathering Fuel
Operations Materials
Rent
Capitalized O&M expenses
Contractors & Outside Professional Services
Maintenance Materials
Transportation Equipment
Employee Expenses/Auto
Utilities
Compression of Gas by Others
Environmental Surveys & Permits
Insurance
Miscellaneous
G&A Salaries and Benefits
Outside Professional Services
Rent
Employee Expenses
Office expenses
IT allocation
OTS/WES allocation
Corporate OH Allocation
Midstream OH Allocation
Miscellaneous

Cogeneration Revenue Acct 495

Proprietary box checked

(B)(4)
(B)(5)
(B)(7)(e)

To: Shirley Bachop
Fed CAM

FAX Transmission From:

U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management
Indian Compliance & Asset Management
P.O. Box 25165 MS 396B2
Denver, CO 80225-0165
Fax Number: 303-231-3755

Proj #: 07-0032

DATE: Monday, February 26, 2007

TO: Mr. Morris Miller OFFICE: Williams Production Company, LLC

PHONE: (918) 573-1158 FAX: (918) 573-1821

FROM: **Tom Peterson** E-Mail: **Thomas.Peterson@mms.gov**

PHONE: (303) 231-3869 or 1-800-634-6423, Extension 1-3869

RE: **Your request, dated February 13, 2007 for an extension to file the following forms:**

- ☒ **Form-4295 - Gas Transportation Allowance**
- ☒ **Form-4109 - Gas Processing Allowance**
- ☐ Form-4110 - Oil Transportation Allowance

This document has 2 pages including this cover sheet.

EXTENSION GRANTED? ☒ **YES** ☐ **NO** REVISED DUE DATE: **June 30, 2007**

COMMENTS: The regulations at 30 CFR § 206.178, § 206.180 and § 206.55 (2002) state that allowance forms must be received by MMS within 3 months after the end of the previous reporting period. For your reports, we consider the reporting period to be at the end of the calendar year. This would make the gas transportation and processing allowance forms due on March 31.

Also, the regulations at § 206.55 state an initial oil transportation allowance form must be received by MMS prior to the end of month in which the allowance is taken.

We are granting a 90-day extension to file the above allowance forms.

If you have any questions, please contact Tom Peterson at the number shown above.

MMS Approval:

David Guzy
Manager, Northern Region
Indian CAM

2-26-07
Date

cc: Shirley Burhop
Onshore Fed CAM

Jim Thomas
CY 2006.

JimThomas@Nilhain.com

Burhop, Shirley

From: Thomas, Jim (E&P) [Jim.Thomas@Williams.com]
Sent: Monday, February 05, 2007 2:09 PM
To: Burhop, Shirley
Subject: RE: Letter of January 30, 2007

I will attach this e-mail to the original letter

Jim Thomas
Federal Royalty Reporting
email: jim.thomas@williams.com
(918) 573-0496 work
(918) 573-5630 fax

From: Burhop, Shirley [mailto:Shirley.Burhop@mms.gov]
Sent: Monday, February 05, 2007 3:06 PM
To: Thomas, Jim (E&P)
Subject: Letter of January 30, 2007

This is to confirm our phone conversation earlier today. The January 30, 2007 letter should have requested information for CY 2006, not CY 2005 as stated in the first sentence.

Please confirm receipt of this email with either an email reply or a phone call to 303-231-3434. Thanks.

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

P:\a FEDCAM\Unbundling\Williams San Juan 2006-1999 no ref.xls

Percentage Splits between Gathering and Processing Costs
Ignacio and Milagro plants
26-May-06

% Breakdown of Operating Costs

	2006	2005	2004	2003	2002	2001	2000	1999
Igancio/San Juan Facilities								
Processing			(B)(4)					
Gathering			(B)(5)					
			(B)(7)(e)					
Milagro/Manzanares Facilities								
Treating								
Gathering			(B)(4)					
			(B)(5)					
			(B)(7)(e)					

Ernest, Mike

From: Ernest, Mike
Sent: Thursday, June 28, 2007 3:00 PM
To: 'Robert.O.Wilkinson@conocophillips.com'
Subject: Williams 2006 unbundled fees for 2006 to 1999
Attachments: Williams San Juan 2006-1999 no ref.xls

Bob

Mary Williams asked that I send this spreadsheet with Williams Midstream's split of costs for their San Juan facilities.

Let me know if I can help you with anything.

Mike Ernest
Economist
FEDCAM
MMS/MRM

Ernest, Mike

From: Ernest, Mike
Sent: Thursday, June 28, 2007 2:56 PM
To: 'Mosley, Mary'
Subject: Williams split to 2006
Attachments: Williams San Juan 2006-1999 no ref.xls

Mary

I received the Williams San Juan splits for 2006. I've attached a spreadsheet with the annual splits from 1999 through 2006.

(B)(5) (B)(7)(e)	(B)(5) (B)(7)(e)	(B)(5) (B)(7)(e)

Mike Ernest

From: Mosley, Mary [mailto:mary.mosley@bp.com]
Sent: Thursday, June 21, 2007 3:42 PM
To: Ernest, Mike
Subject: RE: CBM Presentation.ppt

Hi Mike,

Can you tell me where things stand on the Williams Field Services & Red Cedar splits for transportation/treating charges?

Can you send me the Williams splits for 2005 now & send the 2006 later?

Thanks!

Mary Mosley

Mary Mosley
PARC TAX
phone: 281-366-5310
email: marym2@BP.com

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Friday, May 04, 2007 4:32 PM
To: Mosley, Mary
Subject: RE: CBM Presentation.ppt

Mary

I've requested the information from 2005 for Williams. I'll check on it Monday.
Can you send me the Williams splits for 2005 now & send the 2006 later?

Have a nice weekend.

Mike

From: Mosley, Mary [mailto:mary.mosley@bp.com]
Sent: Wednesday, May 02, 2007 9:38 AM
To: Ernest, Mike
Cc: Celaya, Elias
Subject: RE: CBM Presentation.ppt

Mike,

Can you send me the Williams splits for 2005 now & send the 2006 later?

Thanks!

Mary Mosley

Mary Mosley
PARC TAX
phone: 281-366-5310
email: marym2@BP.com

From: Ernest, Mike [mailto:Mike.Ernest@mms.gov]
Sent: Wednesday, May 02, 2007 9:10 AM
To: Mosley, Mary
Cc: Morris, James
Subject: RE: CBM Presentation.ppt

Mary

Jim Morris and Mary Williams have asked me to track some of the percentage split issues in the San Juan Basin. I'm fairly new to the group so I'm learning on the fly. I just spoke with Williams on the splits for 2006 and we should be receiving those in June. I'm not aware of the status of information from Red Cedar but I will start looking into this today.

Let me know if you need any help

Mike Ernest

MMS/MRM FEDCAM
303-231-3747

From: Morris, James
Sent: Tuesday, May 01, 2007 3:07 PM
To: Ernest, Mike
Cc: Douglas, William
Subject: FW: CBM Presentation.ppt

Mike,

Here is another question

Thanks
Jim

From: Mosley, Mary [mailto:mary.mosley@bp.com]
Sent: Monday, April 30, 2007 1:35 PM
To: Williams, Mary; Celaya, Elias
Cc: Morris, James; Taylor, Triscilla
Subject: RE: CBM Presentation.ppt

Mary,

I am not aware of having received last year's Williams Field Services split. I did ask Shirley Burhop for all of them and she only provided Teppco's split. I was expecting Jim Morris to forward the remaining splits based on your 4/12/07 email to Jim & myself regarding Williams & Red Cedar splits.

Per our records there is a small amount of Federal production (Colorado) going through Red Cedar & BP has been unsuccessful in acquiring the unbundled rate.

Thanks!

Mary Mosley

Mary Mosley
PARC TAX
phone: 281-366-5310
email: marym2@BP.com

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Tuesday, April 24, 2007 1:07 PM
To: Celaya, Elias; Mosley, Mary
Cc: Severson, Valdean; Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

I thought we had sent last years Williams' numbers but we should have the newer ones any day now. For Red Cedar I have no idea - have you tried at all to get them?

From: Celaya, Elias [mailto:Elias.Celaya@bp.com]
Sent: Tuesday, April 24, 2007 11:46 AM
To: Williams, Mary; Mosley, Mary
Cc: Severson, Valdean; Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

Mary,

We are getting preliminary calculations from IBM tomorrow for our review for Horse Canyon, WFS and TEPPCO. I believe we are still waiting to hear from your side on the unbundled rates for Red Cedar and WFS.

I should know more tomorrow where we stand after the IBM meeting.

Thanks,

Elias Celaya (EC)
BP Tax
501 Westlake Park Boulevard
M/C E-407D
Houston, Texas 77079
direct: 281-366-7551
fax: 281-366-6391

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Tuesday, April 24, 2007 10:13 AM
To: Celaya, Elias; Mosley, Mary
Cc: Severson, Valdean; Morris, James
Subject: FW: CBM Presentation.ppt

Can we get an update on where you are with the calculations? Thanks

---

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Tuesday, February 20, 2007 12:04 PM
To: Celaya, Elias
Subject: RE: CBM Presentation.ppt

Hello EC:

The four transaction types that I am referring to are:
1. Horse Canyon
2. WFS
3. TEPPCO
4. Ignacio

Thanks,
Valdean

From: Celaya, Elias [mailto:Elias.Celaya@bp.com]
Sent: Tuesday, February 20, 2007 9:53 AM
To: Severson, Valdean H., TRD
Subject: RE: CBM Presentation.ppt

Hello Valdean,

Below you mention "four types" of transactions.....what do you mean by that? We are currently working on detailing out calculations for NAL and ARMS transactions for the coalbed methane algorithm. (work-in-progress)

Thanks,

Elias Celaya (EC)
BP Tax
501 Westlake Park Boulevard

M/C E-407D
Houston, Texas 77079
direct: 281-366-7551
fax: 281-366-6391

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Monday, February 12, 2007 9:13 AM
To: Celaya, Elias
Subject: CBM Presentation.ppt

EC:

This is the information that Mary Williams sent me concerning the meeting BP had with the MMS. My review notes that it is at a high level and I requested her to request that BP provide actual examples as it relates to the four types of transactions. She also stated that John Price had asked a few questions and that BP would be getting back to the MMS.

Thanks,
Valdean

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Confidentiality Notice: This e-mail, including all attachments is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review, use, disclosure or distribution is prohibited unless specifically provided under the New Mexico Inspection of Public Records Act. If you are not the intended recipient, please contact the sender and destroy all copies of this message. -- This email has been scanned by the Sybari - Antigen Email System.

Williams

June 15, 2006

Minerals Management Service
Minerals Revenue Management
Attn: Shirely Burhop
PO Box 25165, Mail Stop 392B2
Denver Colorado 80225-0165

MINERALS MANAGEMENT SERVICE
MRM DOCUMENT PROCESSING SECTION
JUN 16 2006
RECEIVED
LAKEWOOD, COLORADO

Re: Documents required by settlement agreement between MMS and Williams Production Company LLC

Dear Shirely

Here are the documents you requested related to the costs associated with the Milogro and Ignacio plants and the related gathering systems (Manzanares and San Juan) for 2005 accounting period. Williams Production Company, LLC, payor code 31070, has requested a 90-day extension to file Form MMS-4109 and Form MMS-4295 for the 2005 production periods. Williams pays royalty to the Jicarilla-Apache Tribe and to the Southern Ute Tribe (we have elected the actual-dual-method).

Thank you,

Morris Miller, CPA
Senior Regulatory Accountant
Williams Production Company, LLC

Encls: Percentage Split between Gathering and processing Costs
Manzanares Gathering
Milagro Processing
San Juan Gaterhing System
Ignacio Gas Plant

Percentage Split between Gathering and Processing Costs
Williams Midstream Gas and Liquids
Ignacio and Milagro Plants
May 26, 2005

CONFIDENTIAL AND PROPRIETARY

	% Breakdown of Operating Costs*						
	2005	2004	2003	2002	2001	2000	1999
Ignacio/San Juan Facilities							
Processing				(B)(4)			
Gathering				(B)(5)			
				(B)(7)(e)			
Milagro/Manzanares Facilities							
Treating				(B)(4)			
Gathering				(B)(5)			
				(B)(7)(e)			

* These percentages were calculated using annual transportation and processing allowance forms. Line 2a on both forms

Ernest, Mike

From: Morris, James
Sent: Tuesday, May 22, 2007 7:13 AM
To: Ernest, Mike
Subject: FW: CBM Presentation.ppt

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Monday, May 21, 2007 4:56 PM
To: Williams, Mary; Celaya, Elias; Mosley, Mary
Cc: Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

Where does this effort stand?

Valdean

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Tuesday, April 24, 2007 12:07 PM
To: Celaya, Elias; Mosley, Mary
Cc: Severson, Valdean H., TRD; Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

I thought we had sent last years Williams' numbers but we should have the newer ones any day now. For Red Cedar I have no idea - have you tried at all to get them?

From: Celaya, Elias [mailto:Elias.Celaya@bp.com]
Sent: Tuesday, April 24, 2007 11:46 AM
To: Williams, Mary; Mosley, Mary
Cc: Severson, Valdean; Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

Mary,

We are getting preliminary calculations from IBM tomorrow for our review for Horse Canyon, WFS and TEPPCO. I believe we are still waiting to hear from your side on the unbundled rates for Red Cedar and WFS.

I should know more tomorrow where we stand after the IBM meeting.

Thanks,

Elias Celaya (EC)
BP Tax
501 Westlake Park Boulevard
M/C E-407D
Houston, Texas 77079
direct: 281-366-7551
fax: 281-366-6391

Ernest, Mike

From: Morris, James
Sent: Tuesday, May 01, 2007 3:07 PM
To: Ernest, Mike
Cc: Douglas, William
Subject: FW: CBM Presentation.ppt
Attachments: FW: CBM Presentation.ppt

Mike,

Here is another question

Thanks
Jim

From: Mosley, Mary [mailto:mary.mosley@bp.com]
Sent: Monday, April 30, 2007 1:35 PM
To: Williams, Mary; Celaya, Elias
Cc: Morris, James; Taylor, Triscilla
Subject: RE: CBM Presentation.ppt

Mary,

I am not aware of having received last year's Williams Field Services split. I did ask Shirley Burhop for all of them and she only provided Teppco's split. I was expecting Jim Morris to forward the remaining splits based on your 4/12/07 email to Jim & myself regarding Williams & Red Cedar splits.

Per our records there is a small amount of Federal production (Colorado) going through Red Cedar & BP has been unsuccessful in acquiring the unbundled rate.

Thanks!

Mary Mosley

Mary Mosley
BP ARC TAX
Phone: 281-366-5310
Email: marym2@BP.com

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Tuesday, April 24, 2007 1:07 PM
To: Celaya, Elias; Mosley, Mary
Cc: Severson, Valdean; Morris, James; Taylor, Triscilla; Reynolds, Bob A
Subject: RE: CBM Presentation.ppt

I thought we had sent last years Williams' numbers but we should have the newer ones any day now. For Red Cedar I have

io idea - have you tried at all to get them?

---

rom: Celaya, Elias [mailto:Elias.Celaya@bp.com]
ent: Tuesday, April 24, 2007 11:46 AM
o: Williams, Mary; Mosley, Mary
c: Severson, Valdean; Morris, James; Taylor, Triscilla; Reynolds, Bob A
ubject: RE: CBM Presentation.ppt

Mary,

Ve are getting preliminary calculations from IBM tomorrow for our review for Horse Canyon, WFS and TEPPCO. I believe we re still waiting to hear from your side on the unbundled rates for Red Cedar and WFS.

should know more tomorrow where we stand after the IBM meeting.

hanks,

lias Celaya (EC)
P Tax
01 Westlake Park Boulevard
/C E-407D
louston, Texas 77079
irect: 281-366-7551
ax: 281-366-6391

---

rom: Williams, Mary [mailto:Mary.Williams@mms.gov]
ent: Tuesday, April 24, 2007 10:13 AM
o: Celaya, Elias; Mosley, Mary
c: Severson, Valdean; Morris, James
ubject: FW: CBM Presentation.ppt

an we get an update on where you are with the calculations? Thanks

---

rom: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
ent: Tuesday, February 20, 2007 12:04 PM
o: Celaya, Elias
ubject: RE: CBM Presentation.ppt

ello EC:

he four transaction types that I am referring to are:
. Horse Canyon
. WFS
. TEPPCO
. Ignacio

hanks,
aldean

---

rom: Celaya, Elias [mailto:Elias.Celaya@bp.com]

ent: Tuesday, February 20, 2007 9:53 AM
o: Severson, Valdean H., TRD
ubject: RE: CBM Presentation.ppt

ello Valdean,

elow you mention "four types" of transactions.....what do you mean by that? We are currently working on detailing out alculations for NAL and ARMS transactions for the coalbed methane algorithm. (work-in-progress)

hanks,

lias Celaya (EC)
P Tax
01 Westlake Park Boulevard
/C E-407D
ouston, Texas 77079
irect: 281-366-7551
ax: 281-366-6391

---

rom: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
ent: Monday, February 12, 2007 9:13 AM
o: Celaya, Elias
ubject: CBM Presentation.ppt

C:

his is the information that Mary Williams sent me concerning the meeting BP had with the MMS. My review notes that it is at a igh level and I requested her to request that BP provide actual examples as it relates to the four types of transactions. She lso stated that John Price had asked a few questions and that BP would be getting back to the MMS.

hanks,
aldean

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Comments For Project Number O60153

Closed ~~June~~ september 11, 2006

Employee: BURHOP

The following response was provided to Valdean via emial of 9/11/2006:

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

Onshore CAM Project Data

[redacted] **07-0014**

[redacted] F - Federal

[redacted] 2 - Moderate - 60 day completion

[redacted] 1 - On Shore

Request to unbundle fees, Milagro and Ignacio plants, 2006

Previous Projects

[redacted]

[redacted] January 29, 2007

[redacted] January 29, 2007

[redacted] January 31, 2007

[redacted]

[redacted]

[redacted] June 29, 2007

[redacted]

Companies

Williams Production

States

New Mexico

Leases

Keywords

Allowance - Processing
Allowance - Transportation

Products

Processed (Residue) Gas
Gas Plant Products

Tribes

Audits

Identifiers

Work Elements

Origin

Employees

[redacted]

BURHOP	CAM Fed
ERNEST	CAM Inc

[redacted]

(B)(4)

(B)(5)

(B)(7)(e)

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

Comments For Project Number O70014

Employee: ERNEST

Williams breakdown of costs was delivered and logged into the mail system 6/22/2007. Copies are being prepared for BP America and ConocoPhillips. Noted by MGE 6/27/2007
Copies sent to BP and ConocoPhillips 6/28/2007
Copies sent to State of New Mexico 6/29/2007

Comments For Project Number O70014

Employee: BURHOP

Morris Miller of Williams responded by letter of February 13, 2007 requesting a 90 day extension. We approved their request in a letter dated March 1, 2007, New due date is June 30, 2007.

Comments For Project Number O60032

Closed JUNE 16, 2006

Employee: BURHOP

Letter sent to Williams on Feb. 3, 2006.

Response received from Morris Miller, dated February 22, 2006, requesting a 90-day extension to both this request and to Indian CAM's request for submission of Forms 4109 and 4295.

Comments For Project Number O50011

Not Listed in Central File List Closed

See 06-0032 Unbundle for 2005

Employee: BURHOP

Letter requesting breakout of costs was both mailed and faxed to Williams on 1.24.2005. Response requested within 90 days, per terms of settlement agreement. Green card signed on January 28, 2005, so response due no later than Friday, April 29, 2005.

Received a confirmation from Helen Wood of Williams, confirming receipt of the fax on 1.26.2005.

Received a call from Kim Richards (works for David Wells) of Williams on 1/31/2005 clarifying the format for the information requested.

Received a letter on March 21 from Helen Woods, dated March 15, 2005, requesting a 60 day extension of time to respond. New due date will be Tuesday, June 28.

Received response from Helen Woods with Williams on June 13, 2005. Breakdown of rates sent to Jack Lougee and Nancy Rodriguez in New Mexico on June 14, 2005. Case closed.

Schedule A

(B)(4)

(B)(5)

(B)(7)(e)

MTT 95-0169-

96-126 - Analysis of Index Prices for Indian Reg Neg Regulation

478 - Save Final

99-450 - Update c/B

06-0032 - [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

05-0011 - [redacted]

(B)(4)
(B)(5)
(B)(7)(e)

[redacted] **O7-0014**

[redacted] F - Federal

[redacted] 2 - Moderate - 60 day completion

[redacted] 1 - On Shore

[redacted] Request to unbundle fees, Milagro and Ignacio plants, 2006

Previous Projects

[redacted]

[redacted] January 29, 2007

[redacted] January 29, 2007

[redacted] January 31, 2007

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Companies

Williams Production

States

New Mexico

Leases

Keywords

Allowance - Processing
Allowance - Transportation

Products

Processed (Residue) Gas
Gas Plant Products

Tribes

Audits

Identififers

Work Elements

[redacted]

Origin

(B)(5)

(B)(7)(e)

Employees

BURHOP CAM Fed

[redacted]

☐ Check this box if project file has been purged from the fileroom or archived in accordance with the regulations.

Exit

Burkhardt, Stacy

From: Burhop, Shirley
Sent: Friday, February 16, 2007 2:17 PM
To: Guzy, David; Barder, John
Cc: Williams, Mary; Burkhardt, Stacy
Subject: Williams request for a 60 day extension

Attachments: Williams60dayext.pdf; williams extension.doc

See attached scanned document.

Williams60dayext.p
df (58 KB)

I would hope we could jointly respond to both requests.

Attached is a draft copy of what was sent last year, as a starting point.

williams
:tension.doc (26 KB)

As I will be out next week, I hope this can be handled without me. Thanks.

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

P:\Valuation\Unbundling\Williams\Percentage Splits\Williams San Juan 2007-1999 no ref.xls

Percentage Splits between Gathering and Processing Costs
Ignacio and Milagro plants
15-Jul-08

% Breakdown of Operating Costs

	2007	2006	2005	2004	2003	2002	2001	2000	1999
Igancio/San Juan Facilities									
Processing									
Gathering				(B)(4) (B)(5) (B)(7)(e)					
Milagro/Manzanares Facilities									
Treating									
Gathering			(B)(4) (B)(5) (B)(7)(e)						

P:\Valuation\Unbundling\Williams\Percentage Splits\Williams San Juan 2006-1999 no ref.xls

Percentage Splits between Gathering and Processing Costs
Ignacio and Milagro plants
26-May-06

% Breakdown of Operating Costs

	2006	2005	2004	2003	2002	2001	2000	1999
Igancio/San Juan Facilities								
Processing								
Gathering			(B)(4) (B)(5) (B)(7)(e)					
Milagro/Manzanares Facilities								
Treating								
Gathering			(B)(4) (B)(5) (B)(7)(e)					

P:\a FEDCAM\Unbundling\Williams San Juan 2006-1999 no ref.xls

Percentage Splits between Gathering and Processing Costs
Ignacio and Milagro plants
26-May-06

% Breakdown of Operating Costs

	2006	2005	2004	2003	2002	2001	2000	1999
Igancio/San Juan Facilities								
Processing								
Gathering			(B)(4) (B)(5) (B)(7)(e)					
Milagro/Manzanares Facilities								
Fuel ← Treating								
Gathering			(B)(4) (B)(5) (B)(7)(e)					
TRANSport Rate								
NAS		(B)(4) (B)(5) (B)(7)(e)						
			(B)(4) (B)(5) (B)(7)(e)					

From Lease to Remote Sales Point

8/13/2007

P:\Valuation\Unbundling\Williams San Juan 2006-1999 no ref.xls

Bob Wilkinson ConocoPh...
918-661-4381

Percentage Splits between Gathering and Processing Costs
Ignacio and Milagro plants
26-May-06

% Breakdown of Operating Costs

	2006	2005	2004	2003	2002	2001	2000	1999
Igancio/San Juan Facilities								
Processing								
Gathering			(B)(4) (B)(5) (B)(7)(e)					
Milagro/Manzanares Facilities								
.Treating								
Gathering			(B)(4) (B)(5) (B)(7)(e)					

Fuel Split Transportation
Processing

(B)(4)
(B)(5)
(B)(7)(e)

WILLIAMS FOUR CORNERS LLC

Invoice

September 2006

Customer: WPX GAS RESOURCES
Attn: SHERRY HARDMAN
P.O. BOX 3102
TULSA, OK 74172-0000

Invoice Number: 4027278238
Preparation Date: 10/09/2006
Due Date: 10/25/2006

Agreement: 114

Description of Charges	Quantity	Unit of Measure	Rate	Amount
GATHERING AND/OR PROCESSING:				
ALLOCATED RECEIPT VOLUMES FOR MZ GATHERING AREA				
ALLOCATED RECEIPT VOLUMES FOR MZ GATHERING AREA				
ALLOCATED RECEIPT VOLUMES FOR MZ GATHERING AREA				
HIGH CO2 FOR KUTZ WELLS				
ALLOCATED RECEIPT VOLUMES FOR KZ GATHERING AREA				
HIGH CO2 FOR CONVENTIONAL WELLS				
ALLOCATED RECEIPT VOLUMES FOR SJ GATHERING AREA				
ALLOCATED RECEIPT VOLUMES FOR MZ GATHERING AREA				
FUEL USAGE:				
FUEL IN DOLLARS 09/2006				
OTHER:				
NM GAS PROCESSORS TAX				

(B)(4)
(B)(5)
(B)(7)(e)

Total Invoice (B)(4) (B)(5) (B)(7)(e)

Accounting Contact: KIM RICHARDS (918)-573-9758

Payment Should Be Wired by Federal Funds by Noon Eastern Time On 10/25/2006 To:

WILLIAMS FOUR CORNERS LLC
JPMorgan Chase (formerly Bank One)
ACCOUNT 716486840
ABA #071000013

WPX GAS RESOURCES
APPROVALS

Customer Copy

E1

Contract: 114
Price: TJ $1.3840 gath + .0125 = $1.3965 JJB 09/06
Volume: TJ
Approval: TJ Sherry Hardman 10/17/06
PDwed 10/19/06

005463

WILLIAMS FOUR CORNERS LLC

STATEMENT FOR
WPX GAS RESOURCES, 114
September 2006

Beginning Balance	
Deliveries:	
Scheduled Nominations	
Delivery Agreement Transfers	
Net Delveries	
Receipts:	
Total Allocated Wellhead Volumes	
Less Gathering Fuel	
Less Plant Fuel	(B)(4)
Net Receipts	(B)(5)
Net Current Month	(B)(7)(e)
Ending Balance	

POSITIVE IMBALANCE DUE WILLIAMS FOUR CORNERS LLC

NEGATIVE BALANCE DUE WPX GAS RESOURCES

ACCOUNTING CONTACT: KIM RICHARDS (918)-573-9758

WILLIAMS FOUR CORNERS LLC

STATEMENT FOR

WPX GAS RESOURCES, 114

September 2006

Delivery Detail:

Transfer Detail:

(B)(4)
(B)(5)
(B)(7)(e)

Wellhead Volume Detail:

Description	
Per the Volume Allocation Report(s)	(B)(4) (B)(5) (B)(7)(e)

WILLIAMS FIELD SERVICES

C02 RATE CALCULATIONS

September-06

(B)(4)

(B)(5)

(B)(7)(e)

J:\Billre\C02\114c02.xls

Prepared By: Stephen Burnett Ext. 6488

Agreement 114 Calculations
Sep-06

Volume Allocation Balance
ppa
Agreement Transfer to 101

Mainline Dollar Credit

MMBtu Reimbursement
less ML Credit 114N
Mainline Credit 114
Rate
Total ML Credit Dollars

Mainline Fuel Credit

Mainline Fuel Credit (mmbt
ML Credit Fuel %
Mainline Fuel Credit

(B)(4)
(B)(5)
(B)(7)(e)

Fuel in Dollars

114 MCF Wellhead
Fuel Percentage (>10% CC
ISF EPNG Milagro Rate
Fuel in Dollars

114 MMBTU Wellhead
Fuel Percentage
MMBTU Fuel Volumes

Summary - Fuel in Dollars

J:\Billre\C02\Calc114.xls
Prepared By: Stephen Burnett Ext. 6488

WILLIAMS FOUR CORNERS LLC
NEW MEXICO GAS PROCESSOR TAX REPORT
WPX GAS RESOURCES

FOR AGREEMENT NUMBER: 114

09/06 Production

WELL HEAD VOLUME		
	less:	gathering fuel
	"	plant fuel
taxable inlet volume		
	tax rate	
TAX DUE		

(B)(4)
(B)(5)

gath fuel factor = (B)(4) (B)(5)

processing fuel factor = (B)(4) (B)(5)

WILLIAMS FOUR CORNERS LLC

Volume Allocation Schedule

For the Month of September 2006

"TAKES" WILLIAMS SHARE

r Name: WPX GAS RESOURCES
nent Number: 114

Station Description
SJ 32-FED 24 #2A
SJ 32-FED 23 #1A
SJ 32-FED 24 #1A
SJ 32-8 UNIT #213A
SJ 32-FED 14 #1A
SJ 32 FED 15 #1A
SJ 32 FED 15 2A
MIDDLE MESA
PUMP MESA CPD
32-8 #1 CDP
32-8 #1 CDP
32-7 #1 CDP
32-8 #2 CDP
32-8 #3 CDP
FC STATE COM #20 (DED)
CEDAR HILLS CDP
32-9 CPD
PRIMO CDP
SIMS MESA
30-5 #1
SJ 31-6 #1 CDP
EAST NEBU CDP #1

(B)(4)
(B)(5)
(B)(7)(e)

1178

(allocated Mcf, MMBtu are calculated and rounded daily)

WILLIAMS FOUR CORNERS LLC

Volume Allocation Schedule

For the Month of September 2006

Name: WPX GAS RESOURCES
ent Number: 114

Station Description	
SJ 31 - FED 3 #1A	(B)(4) (B)(5) (B)(7)(e)

(allocated Mcf, MMBtu are calculated and rounded daily)

GAS PRODUCT ALLOWANCE COMPUTATION SHEET

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

FORM MMS - 4109, Schedule 1

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:
IGNACIO CONDITIONING PLANT
WILLIAMS GAS PROCESSING

PRODUCT CODE 07

PERIOD: 01/01/06 to 12/31/06

Schedule 2A
Line 6

(a) Lease Number	(b) Agreement Number	(c) Sales Quantity	(d) Non-Arm's-Length Processing Costs ($)
		[redacted] (B)(4) (B)(5) (B)(7)(e)	
	TOTALS	[redacted] (B)(4) (B)(5) (B)(7)(e)	

Plant [redacted] (B)(4) (B)(5) (B)(7)(e)

Enter as the non-arms length Product Processing Allowance Rate the unit processing cost [total non-arm's length processing costs (column d) divided by total sales quantity (col [redacted] (B)(4) (B)(5) (B)(7)(e) The allowance rate is to be carried to 6 decimal places; i.e., [redacted] (B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 1 (revised 09/2004)

Mauss copy

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

NON-ARM'S LENGTH PROCESSING FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

FORM MMS - 4109, Schedule 2

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLHOMA ZIP: 74101

PLANT NAME & OPERATOR:

IGNACIO CONDITIONING PLANT

WILLIAMS GAS PROCESSING

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

a + d = e

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	(B)(4) (B)(5) (B)(7)(e)				1a
Fractionation Facility	$	$	$	$		1b

Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)	$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)	$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)		4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).	$	5

(B)(4) (B)(5) (B)(7)(e)

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FORM MMS-4109 SCHEDULE 2 (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES FORM MMS - 4109, Schedule 2A

(B)(4)
(B)(5)
(B)(7)(e)

A. Lessee's Operating Costs

Labor	$	1
Utilities		2
Plant Fuel		3
Rent		4
Ad Valorem Property Taxes		5
Employee Expenses & Vehicle Costs		6
Office Supplies & Expenses		7
Other (specify). Attach Supplemental Schedule 2A as necessary. (See "A" Items on Supplemental 2A)		8 9
Total Operating Costs -- Subtotal	$	10

PLANT FUEL

(B)(4)
(B)(5)
(B)(7)(e)

B. Lessee's Maintenance Costs

Materials & Parts	$	11
Contractors & Outside Professional Services		12
Utilities		13
Other (specify). Attach Supplemental Schedule 2 A as necessary. (See "B" Items on Supplemental 2A)		14 15
Total Maintenance Costs -- Subtotal	$	16

(B)(4)
(B)(5)
(B)(7)(e)

C. Lessee's Overhead Allocation (specify)

Administrative and General Costs	$	17
(See 'C" items on Supplemental 2A)		18
Other (specify) use Supplemental Schedule 2A		19
Total Overhead Allocation	$	20

(B)(4)
(B)(5)
(B)(7)(e)

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21

(B)(4)
(B)(5)
(B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4109 SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES
FORM MMS - 4109, Supplemental Schedule 2A

Type of Expenditure - Describe

Item "A" :	$
Environmental	
Property Insurance	
Cogeneration Revenue Acct 495	
Overhead and Expense Reduction Allocation	$
TOTAL	$
Item "B" :	
0	
Gas Proc Tax/Other Taxes	$ 0
TOTAL	0
Item "C":	
A&G Salaries & Payroll Loading	
Employee Expenses & Vehicle Costs	
G&A office Supplies & Expenses	
G&A Outside Services & Professional Fees	
IT allocation	
OTS/WES allocation	
Corporate OH Allocation	
Allocated G&A costs	
Miscellaneous	
Property / Liability Insurance	
TOTAL	

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check [X] PROPRIETARY

[ ] NONPROPRIETARY

FORM MMS-4109 SUPPLEMENTAL SCHEDULE 2A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Williams Production Company/31070
Plant Name & Operator:
Ignacio Conditioning Plant
Williams Gas Processing
Product: 07
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH PROCESSING FACILITIES DEPRECIATION AND CAPITAL EXPENDITURES SUMMARY

FORM MMS - 4109, Schedule 2B

2 Expenditure item	3 Initial Capital Investment and Date Placed in Service	4 Salvage Value	5 Depreciable Life/Years of Depreciation Taken to Date	6 Undepreciated Capital Investment at Beginning of Year	7 Depreciation	Undepreciated Capital Investment at End of Year
$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e) 1/ 1/ 1/ 1/	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)

on Calculation - Ignacio Plant

12/31/05 Gas Plant	10% Salvage Value	Net Plant	3% 2006 Dep. Expense	Acc DD&A 12/31/06	From Previous Filing Acc DD&A 12-31-05	Undepreciated Capital 1-1-06

(B)(4)
(B)(5)
(B)(7)(e)

Gas Plant 12/31/2005	10% Salvage Value	Net Plant	Undepreciated Capital 12-31-05

(B)(4)
(B)(5)
(B)(7)(e)

MMS-4295

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

GAS TRANSPORTATION FACILITY SUMMARY SHEET Form MMS-4295, Schedule 1

[1] PAYOR NAME AND COD: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

LEASE NUMBER:

AGREEMENT NUMBER:

FACILITY NAME/ID NUMBER: Manzanares System

PRODUCT CODE: 04

PERIOD: 01/01/06 to 12/31/06

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Segment Name or Number From To	Mode of Transportation	Non-Arm's-Length/ Indicator	Non-Arm's-Length Operating Costs	Depreciation	Rate of Return	Undepreciated Capital Investment at Beginning of Year	Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.								
			$	$		$	$	3
								4
								5
								6
								7
	TOTALS							8
								9

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Partial A total Cost Partial A Total Quan = Gas Rate / Mcf

Allowance rate for transporting NGL'S or Sulfer from the lease to plant.

Sulfer Rate/LT NGL Rate/Gal 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT.

Manzanares System	Pipeline	4	$					11
								12
	TOTALS		$				$	13
								14

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products.

Part B Total Cost Part B Total Quantity = Product Rate 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance r cannot exceed 50 percent of the value of the product without prior MMS approval.

Allowance Rate

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1 (revised 09/2004)

(B)(4)
(B)(5)
(B)(7)(e)

005477

U.S. DEPARTMENT OF THE INTERIOR

Minerals Management Service
Minerals Revenue Management

SCHEDULE 1-- NON-ARM'S LENGTH TRANSPORTATION FACILITIES OPERATING EXPENSES, DEPRECIATION, AND RETURN ON UNDEPRECIATED CAPITAL INVESTMENT

MANZANARES

PAYOR NAME AND CODE: WILLIAMS PRODUCTION COMPANY / 31070

ADDRESS: PO BOX 3102

CITY: TULSA STATE: OKLAHOMA ZIP: 74101

PLANT NAME & OPERATOR:

WILLIAMS FIELD SERVICES

PRODUCT CODE: 07

PERIOD: 01/01/06 to 12/31/06

??

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$ 80	$	(B)(4) (B)(7)(e)			1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21) From Schedule 1A ←					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product TRANSPORTATION Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

(B)(4) (B)(7)(e)

(B)(4) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

☐ Estimated Costs - Check when estimating costs for system/segment start-up

SPLIT FUEL/UTILITIES

A. Lessee's Operating Costs for System/Segment		
Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities/Fuel		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies, Facilities & Cost Assignment		7
Other (specify). Attach Supplemental Schedule 1A as necessary. See A.		8
		9
Total Operating Costs -- Subtotal	$	10
B. Lessee's Maintenance Costs		
Maintenance Supervision	$	11
Contractor Services		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A as necessary. See B.		14
		15
Total Maintenance Costs -- Subtotal	$	16
C. Lessee's Overhead Allocation (specify)		
Labor and Benefits	$	17
Outside Professional Services		18
Other (specify) use Supplemental Schedule 1A See C.		19
Total Overhead Allocation	$	20
D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20)	$	21
E. Allocated to Segment Lease Volume / Total throughput	$	22
F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d. Schedule 1	$	23

(B)(4) (B)(5) (B)(7)(e)

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

☒ PROPRIETARY

☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (revised 09/2004)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period: 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT OPERATIONS, MAINTENANCE, AND OVERHEAD EXPENDITURES
FORM MMS - 4295, Supplemental Schedule 1A

Type of Expenditure - Describe	
Item "A" : Transportation Equipment	$
Employee Expenses/Auto	
Utilities	
Compression of Gas by Others	
Environmental Surveys & Permits	
Insurance	
Miscellaneous	
TOTAL	$
Item "B" : Supplies	$
Utilities	
Rentals	
Transportation Equipment Costs	
Contractor Services	
Outside Professional Services	
TOTAL	$
TOTAL	$
Item "C": Overhead Allocation	$
Employee Expenses	
Office expenses	
IT Allocation	
Oper & Tech Serv Allocation	
Corporate OH Allocation	
Midstream OH Allocation	
Misc	
TOTAL	$

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Note: The above are direct charges by business unit and

do not include GRI and ACA.

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals Revenue Management

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: Williams Prod Co/31070
Lease Number:
Agreement Number:
Facility ID No: Manzanares System
Segment ID No:
Period 01/01/06 to 12/31/06

NON-ARM'S-LENGTH TRANSPORTATION
SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY
FORM MMS - 4295, Schedule 1B

1	2	3	4	5	6	7
Expenditure Item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life/Years of Depreciation Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End of Year
Structure & Improvements	$ (B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	(B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)	$ (B)(4) (B)(5) (B)(7)(e)
Gathering Facilities						
Field Compression						
Purification Equipment						
Other Equipment						
Office Furniture & Fixtures						

Totals	$ (B)(4) (B)(5) (B)(7)(e)	8
Allocated to Segment (from line 22, Schedule 1A)	(B)(4) (B)(5) (B)(7)(e)	9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1	(B)(4) (B)(5) (B)(7)(e)	10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (revised 09/2004)

(B)(4)
(B)(5)
(B)(7)(e)

Manzanares Gathering System ONLY
Depreciation Calculation

(B)(4)
(B)(5)
(B)(7)(e)

(B)(4)
(B)(5)
(B)(7)(e)

114 ~~114~~ ~~109~~ Agreement

not reduced for CO2 content

MMS Agreement Number	MMS Lease Number	Sales Date	Product	Sales Volume	Gas MMBtu	Sales Value	Royalty Before Allowance	Trans Allow Deduct (Current Method)	Trans Allow Deduct by CDP Method	Trans Allow Deducty Proposed Method	Diff (CDP vs Proposed)	CO2 Percent	CO2 Mcf
Total													

(B)(4)
(B)(5)
(B)(7)(e)

MMS Agreement Number	MMS Lease Number	Sales Date	Product	Sales Volume	Gas MMBtu	Sales Value	Royalty Before Allowance	Trans Allow Deduct (Current Method)	Trans Allow Deduct by CDP Method	Trans Allow Deducty Proposed Method	Diff (CDP vs Proposed)	CO2 Percent	CO2 Mcf
(B)(4) (B)(5) (B)(7)(e)													

MMS Agreement Number	MMS Lease Number	Sales Date	Product	Sales Volume	Gas MMBtu	Sales Value	Royalty Before Allowance	Trans Allow Deduct (Current Method)	Trans Allow Deduct by CDP Method	Trans Allow Deducty Proposed Method	Diff (CDP vs Proposed)	CO2 Percent	CO2 Mcf

(B)(4)
(B)(5)
(B)(7)(e)

New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
(505) 827-0341
Administrative Services
(505) 827-0369
Audit and Compliance
(505) 827-0900
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

February 4, 2009

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles R. Brown
Williams Midstream
One Williams Center
PO Box 645
Tulsa, OK 74101-0645

REQUEST FOR INFORMATION
DUE THIRTY DAYS FROM RECIEPT

Dear Mr. Brown:

The State of New Mexico on behalf of the Minerals Management Service is requesting information from your company to facilitate audits involving transportation and plant costs for the San Juan (Ignacio), and Torre Alta (Kutz & Lybrook) systems for gas removed from Federal Leases within the State of New Mexico.

What information is requested?

- Regarding capital costs, for the Kutz, Lybrook, and Ignacio plants and transportation systems which flow into such plants, the following information is requested:
    1. For the compressors, dehydrators and pipe owned by Enterprise please provide the following information:
        a. Original Cost
        b. The year the asset was placed in service, and if it was the first half or second half of the year,
        c. Salvage Value,
        d. Service Life,
        e. Depreciation method – Life of asset – Life of Reserves

f. If you use expected life of asset provide expected life of equipment, if you use expected life of reserves provide expected life of reserve.
g. Location of each piece of equipment.

What is our authority?

Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State, or Indian Tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212.

Failing to provide requested information necessary for us to complete our audit may be treated as a knowing or willful violation under 30 CFR § 241.51 (2006).

What if you have questions?

If you have any questions, please contact Christopher Brew at (505) 222-6618, Christopher.Brew@state.nm.us, or Josselyn Gober at (505) 6617, Josselyn.Gober@state.nm.us.

Sincerely,

Jack Lougee, Federal Royalty Audit Supervisor
205 Federal Royalty Program

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

Ernest, Mike

From: Bracher, Chad [Chad.Bracher@Williams.com]
Sent: Monday, September 15, 2008 10:24 AM
To: Maddux, Julia
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: RE: Manzanares Data Request 5

Julia: I've completed the request and am having the information sent to you via FedEx today, so you should receive it at your office tomorrow. Please let me know if I can answer any questions – thank you.

Chad R. Bracher
Four Corners Commercial Development
Williams Midstream
918.573.3138
918.691.2433 (c)

From: Maddux, Julia, TRD [mailto:Julia.Maddux@state.nm.us]
Sent: Monday, September 08, 2008 3:19 PM
To: Brown, Charles R.; Bracher, Chad
Cc: Ernest, Mike; Lougee, Jack R., TRD
Subject: Manzanares Data Request 5

Re: Williams Financial Data and Typical Equipment Expenses worksheet 2006

Charlie,

We took the information from the typical monthly expense information provided by Williams and compared it to the equipment list sent to us at a later date. We found some compressors and dehydrators that were a different models and sizes. I am sending a data request for typical monthly expenses for those pieces of equipment.

Thanks,

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Phone (505) 222-6616
Fax (505) 222-6633

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New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
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(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

Lybrook &
Kutz

September 10, 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles R. Brown
Williams Midstream
One Williams Center
PO Box 645
Tulsa, OK 74101-0645

REQUEST FOR INFORI
(Clarification of August 26, 2008 Request Letter due dates)

Dear Mr. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information from your company to facilitate audits involving transportation costs for the San Juan (Ignacio), and Torre Alta (Kutz & Lybrook) systems for gas removed from Federal Leases within the State of New Mexico.

In order to facilitate the communication of this information, we request a field visit of the San Juan system and the Ignacio plant, the Torre Alta system, and the Kutz and Lybrook plants for the week of September 22, 2008 to obtain and discuss the following information.

What information is requested?

- Map of system and schematic of the plant at the time of the tours.

By January 31, 2009:

- Gas properties (pressure, water content, CO_2) at the following places, including but not limited to:
  Custody Transfer meter, inlet/outlet of compression stations, plant inlet, dehydration, processing, and plant outlet
- Types and locations of compression and dehydration

- Volumes – accounting for field loss, field use and plant use
- Fee structure – components of fees, allocation for compression, dehydration, etc.

By February 28, 2009:

- Costs breakdown by cost center and type of equipment.

What is our authority?

Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State, or Indian Tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212.

Failing to provide requested information necessary for us to complete our audit may be treated as a knowing or willful violation under 30 CFR § 241.51 (2006).

What if you have questions?

If you have any questions, please contact Christopher Brew at (505) 222-6618, Christopher.Brew@state.nm.us, or Josselyn Gober at (505) 6617, Josselyn.Gober@state.nm.us.

Sincerely,

Jack Lougee, Federal Royalty Audit Supervisor
205 Federal Royalty Program

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2

Denver, CO 80225

New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: Manzanares System Request #5

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	September 15, 2008	September 15, 2008

Information Requested:

We have reviewed the asset information submitted and determined the following additional information is needed.

1. From the Williams Financial Data & Typical Equipment Expenses for 2006. What is the Typical Monthly Expense rental and/or maintenance for the following equipment and estimated fuel mcf/d?
   a) Compressor Model 9390GL
   b) Compressor Model 3524GS1
   c) Compressor Model L5108GL

2. From the Williams Financial Data & Typical Equipment Expenses provided what is the estimated fuel usage for following Dehydrators
   a) P & A, Inc. Dehydrator, capacity, 10mm
   b) Enertek, capacity 10mm
   c) Enertek, capacity 20mm
   d) Enertek, capacity 85mm
   e) Maloney Crawford, capacity 145mm
   f) Sivalls, capacity 145mm
   g) Rama, capacity 145mm
   h) T.H Russell, capacity 80mm

Representative Requesting Data: Julia Maddux

Signature of Firm's Representative: _____

Date Received by 205 Representative: _____

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

The Trade Secrets Act, 18 U.S.C. Section 1905, and the Outer Continental Shelf Lands Act, 43 U.S.C. 1352(c), contain provisions to protect the confidentiality of information provided to the Federal Government. Department of Interior regulations implementing the requirements of the Freedom of Information Act are at 43 CFR § 2.11. The MMS/State audits are conducted in accordance with the professional standards of the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to use due professional care when conducting audits. These include the use of good judgment to ensure that all confidential information provided the Federal Government is protected. The MMS/State will, in all cases, protect the confidentiality of privileged or proprietary information provided to MMS/State auditors by Williams or their subsidiaries. Such information, however, will be subject to the provisions of the Freedom of Information Act.

New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: Manzanares System Request #4

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	September 15, 2008	July 31, 2008

Information Requested:

We have reviewed the asset information submitted and determined the following additional information is needed.

1. From the list of equipment for compressors and dehydrators and the asset schedules some of the locations are not on the system map provided. Provide the location by township and range and trunk line for the following locations:
   a. Kernagahn
   b. Carracas
   c. Pritchard
   d. Simms Mesa
   e. Hart Mountain Booster Compressor Station
   f. Moore Straddle Compressor
   g. CDP site 29-5
   h. CDP Site 29-6
   i. CDP Site 32-8
   j. Grassy Canyon

2. From the Williams Financial Data & Typical Equipment Expenses provided what is O & M (Operating & Maintenance?). If it is Operating & Maintenance, then what is the distinction between Operating Costs & O & M?

Representative Requesting Data: Julia Maddux

Signature of Firm's Representative: _____

Date Received by 205 Representative: _____

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

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Williams

One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

May 29, 2008

Ms. Julia Maddux
Federal Royalty Auditor
New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Santa Fe, New Mexico 87504

RE: Manzanares System Request #3

Dear Ms. Maddux:

On April 24, 2008, Williams received your third request for additional information relating to our Manzanares Gathering System. Although we have been actively working to compile the necessary data, due to the volume of records we will need to review, we do not believe that we will be able to comply with your request by the requested due date. In order for us to more thoroughly review our records and provide a more complete response, we would request a 30-day time extension within which to comply with your request.

We anticipate being able to provide all of the requested data to you by June 25, 2008. If you are in agreement to provide Williams with this 30-day extension, please sign in the space provided below and return one signed copy to me by facsimile to (918) 573-9755.

Thank you for your cooperation and assistance in this matter. If you have any question, please feel free to contact me.

Best regards,

Charles R. Brown
Director, Commercial Development

Accepted and Agreed this 6 day of June, 2008.

By: Jack Lynch
Name:
Title: District Supervisor 205 Program New Mexico

New Mexico Taxation & Revenue
Audit & Compliance Division
Oil & Gas Bureau / 205 Federal Royalty Audit Program

INFORMATION / DOCUMENT REQUEST AND RECEIPT

NM Project Number 1138	Request Number: 3

Firm Name and Request Submitted to:	Date of Request:	Date Due:
Williams Charlie Brown	April 21, 2008	May 21, 2008

Information Requested:

We have reviewed the information submitted and following the teleconference held on April 18, 2008 we determined that the following additional information is needed.

1. **For the compressors, dehydrators and pipe owned by Williams please provide the following information on the Manzanares System**
   a. **Original cost**
   b. **Salvage value**
   c. **Service life**
   d. **Depreciation method**

2. **System computer screen print of the Manzanares control screen**

3. **Screen print that shows the system pressures**

Representative Requesting Data:
Julia Maddux

Signature of Firm's Representative:

Date Received by 205 Representative:

Comments:

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of

> any officer or employee duly designated by the Secretary or any State or Indian Tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian Tribe.

Implementing regulations relative to require record keeping are located in 30 CFR § 212. Likewise, record "inspection" clauses are found in applicable lease instruments issued pursuant to various minerals leasing acts. All records related to Federal leases for the audit period must be retained until their release is specifically authorized by the Minerals Management Service (MMS).

The Trade Secrets Act, 18 U.S.C. Section 1905, and the Outer Continental Shelf Lands Act, 43 U.S.C. 1352(c), contain provisions to protect the confidentiality of information provided to the Federal Government. Department of Interior regulations implementing the requirements of the Freedom of Information Act are at 43 CFR § 2.11. The MMS/State audits are conducted in accordance with the professional standards of the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to use due professional care when conducting audits. These include the use of good judgment to ensure that all confidential information provided the Federal Government is protected. The MMS/State will, in all cases, protect the confidentiality of privileged or proprietary information provided to MMS/State auditors by Williams or their subsidiaries. Such information, however, will be subject to the provisions of the Freedom of Information Act.

New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
(505) 827-0341
Administrative Services
(505) 827-0369
Audit and Compliance
(505) 827-0900
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

November 27, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles R. Brown
Midstream Gas and Liquids
One Williams Center
P.O. Box 645
Tulsa, OK 74172

SECOND REQUEST FOR INFORMATION RESPONSE DUE FEBRUARY 29, 2007

Dear Mr. Charles R. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information following the tour of the Manzanares plant and system July 17, 2007. We understand that producers generally pay a bundled fee for transportation (also called gathering) and/or treating. We are asking your assistance in providing us further information on your bundled services in order to determine the allowable costs of transportation per MMS regulation 30 CFR § 206.156.

What information is requested?

- Costs for typical equipment in order to determine the percentage of fee per equipment (see diagram)
- Information necessary to validate the costs stated above i.e. operational, maintenance, and capital including depreciation
- List of producers by year for the last five (5) years

Charles R. Brown
Mid-Stream Gas and Liquids

What is our authority?

Under section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and 30 U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian tribe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212 (2006).

Failing to provide requested information necessary for us to complete our audits may be treated as a knowing or willful violation under 30 CFR 241.51 (2006). Your response is due February 29, 2008.

What if you have questions?

If you have any questions, please contact Julia Maddux at (505) 222-6616, Julia.Maddux@state.nm.us, or Maryann Maberry at (505) 827-9818, Maryann.Maberry@state.nm.us.

Sincerely,

Jack Longee, Federal Royalty Audit Supervisor
205 Federal Royalty Audit Program

Charles R. Brown
Mid-Stream Gas and Liquids

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, CO 80225

John Price, Chief of Enforcement
Minerals Management Service
Mineral Revenue Management
Office of Enforcement
P.O. Box 25165, MS 370B2
Denver, CO 80225

Morris Miller
Williams Production Company
P.O. Box 3102, MD 37-5
Tulsa, OK 74101

New Mexico
Taxation and Revenue Department

Bill Richardson
Governor
Jan Goodwin
Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer

Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

DIVISIONS

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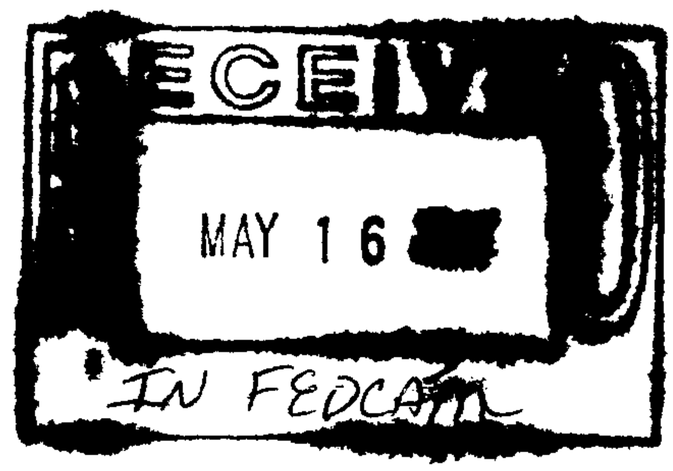
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

May 10, 2007



CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Charles R. Brown
Mid-Stream Gas and Liquids
One Williams Center
PO Box 645
Tulsa, OK 74172

REQUEST FOR INFORMATION

Dear Charles R. Brown:

The State of New Mexico on behalf of the Minerals Management Service, is requesting information from your company to facilitate an audit involving transportation costs from the Manzanares system for gas removed from Federal Leases within the State of New Mexico.

In order to facilitate the communication of this information, we request a field visit of the system for the first week in June so we can discuss the following information.

What information is requested?

- Map of system and schematic of plant.
- Gas properties (pressure, water content, CO_2) at the following places, but not limited to: Custody Transfer meter, inlet/outlet of compression stations, plant inlet, dehydration, processing, and plant outlet.
- Compression – types and locations of compression stations, such as gas-fired, electric, etc.
- Dehydration – types and locations of dehydration
- Volumes – accounting for field loss, field use
- Fee structure – components of fees, allocation for compression, dehydration, etc.
- Costs breakdown by cost center and type of equipment.

What is our authority?

Under Section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (FOGRSFA) and 30 U.S.C. 1735, State and Tribal organizations have agreements with MMS and are duly authorized officers of the Secretary of the Interior. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Public Law 97-451, provides in Section 103(a):

> A lessee, operator, or other person directly involved in the developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information the Secretary may, by rule, reasonably require for the purpose of implementing this Act or determining compliance with rules or orders under this Act. Upon the request of any officer or employee duly designated by the Secretary or any State or Indian tripe conducting an audit or investigation pursuant to this Act, the appropriate records, reports or information which may be required by this section shall be made available for inspection and duplication by such officer or employee, State or Indian tribe.

Implementing regulations relative to require records keeping are located in 30 CFR § 212.

Failing to provide requested information necessary for us to complete our audit may be treated as a knowing or willful violation under 30 CFR 241.51 (2002).

What if you have questions?

If you have any questions, please contact Maryann Maberry at (505) 827-9818, maryann.maberry@state.nm.us, or Lena Martinez at (505) 827-9846, lena.martinez@state.nm.us.

Sincerely,

Jack Lougee, Federal Royalty Audit Supervisor
205 Federal Royalty Audit Program

Cc: Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, Colorado 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
P.O. Box 25165, MS 392B2
Denver, Colorado 80225

John Price, Chief of Enforcement
Minerals Management Service
Minerals Revenue Management
Office of Enforcement
P.O. Box 25165, MS 370B2
Denver, Colorado 80225

Morris Miller
Williams Production Company
P.O. Box 3102, MD 37-5
Tulsa, OK 74101

Chad R. Bracher
Commercial Development
One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

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VIA FEDEX

September 15, 2008

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Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: Manzanares System Request #5

Dear Ms. Maddux:

Attached please find the information requested of Williams Four Corners, LLC ("Williams") from the State of New Mexico, on behalf of the Minerals Management Service, in your letter dated September 8, 2008. The information details typical costs associated with compression and dehydration equipment for the Manzanares Gathering System.

All of the information contained is to be considered proprietary and confidential, and is meant only to be used for the purpose of facilitating the audit involving allowable costs related to Williams' bundled services for the Manzanares System.

Should you have questions related to the enclosed data please contact me at (918) 573-3138.

Best regards,

Chad Bracher

Chad Bracher
Commercial Development

Manazanares Gathering and Milagro Plant
Typical Equipment Expenses [1]

Compression	Monthly Rental	Monthly O&M	Fuel Mcf/d
		(B)(4)	

Dehydration	Fuel Mcf/d
	(B)(4)

Notes:

[1] Based upon 2006 expenses

[2] Based upon 2008 expenses, new unit

[3] Includes (B)(4) overhaul allocation

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Williams

Chad R. Bracher
Commercial Development
One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

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VIA FEDEX AND EMAIL

July 31, 2008

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: Manzanares System Request #4

Dear Ms. Maddux:

Listed below please find the information requested of Williams Four Corners, LLC ("Williams") from the State of New Mexico, on behalf of the Minerals Management Service, in your letter dated July 24th, 2008. The information details the locations of sites as requested in your letter, and provides an explanation as to the difference between O&M and Operating Costs.

Site Locations:

a. Kernagahn –

b. Carracas –

c. Pritchard –

(B)(4)

d. Sims Mesa

e. Hart Mountain Booster Compressor Station –

f. Moore Straddle Compressor –

g. CDP site 29-5 – T

h. CDP site 29-6 – A

(B)(4)

i. CDP site 32-8 – A

j. Grassy Canyon –

Financial Explanations:

"O&M" includes only operating and maintenance expenses, while "Operating Costs" includes O&M and other expenses.

All of the information contained is to be considered proprietary and confidential, and is meant only to be used for the purpose of facilitating the audit involving allowable costs related to Williams' bundled services for the Manzanares System.

Should you have questions related to the enclosed data please contact me at (918) 573-3138. Charlie Brown and I would also be willing to meet with you if further information or explanation is needed.

Best regards,

Chad Bracher

Chad Bracher
Commercial Development

Cc:
Mr. Jack Lougee
Federal Royalty Audit Supervisor
State of New Mexico
Taxation and Revenue Department
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

Mr. Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
Denver Federal Center, Building 85
Denver, Colorado 80225

Chad R. Bracher
Commercial Development
One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

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June 25, 2008

Julia Maddux
Federal Royalty Auditor
Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: Manzanares System Request #3

Dear Ms. Maddux:

Enclosed please find the information requested of Williams Four Corners LLC ("Williams") from the State of New Mexico, on behalf of the Minerals Management Service, in your letter dated April 24th, 2008. The information in the enclosed report details the original cost, in service date, salvage value, service life, depreciation, and other relevant information for Williams owned assets related to the Manzanares Gathering System. The depreciation is calculated using the (B)(4)

Each line item in the enclosed report is based upon a work order that was created at the time the asset was placed in service. Therefore the data contained in the report reflects only the detail provided within the work order. Though Williams does not assign asset data by specific location, we have worked diligently to group the asset data by CDP or site within the Manzanares System. The following lists the disparities:

Compressors

- (B)(4)

Dehydrators

- (B)(4)
-
-

Pipelines

- (B)(4)
-
-
-

All of the information contained is to be considered proprietary and confidential, and is meant only to be used for the purpose of facilitating the audit involving allowable costs related to Williams' bundled services for the Manzanares System.

Should you have questions related to the enclosed data please contact me at (918) 573-3138. Charlie Brown and I would also be willing to meet with you if further information or explanation is needed.

Best regards,

Chad Bracher/pc

Chad Bracher
Commercial Development

Cc:
Mr. Jack Lougee
Federal Royalty Audit Supervisor
State of New Mexico
Taxation and Revenue Department
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

Mike Ernest
Minerals Management Service
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PO Box 25165, MS 392B2
Denver, Colorado 80225

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Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

May 29, 2008

Ms. Julia Maddux
Federal Royalty Auditor
New Mexico Taxation & Revenue Department
Audit & Compliance Division
Oil & Gas Bureau
205 Federal Royalty Audit Program
Santa Fe, New Mexico 87504

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LAKEWOOD, COLORADO

RE: Manzanares System Request #3

Dear Ms. Maddux:

On April 24, 2008, Williams received your third request for additional information relating to our Manzanares Gathering System. Although we have been actively working to compile the necessary data, due to the volume of records we will need to review, we do not believe that we will be able to comply with your request by the requested due date. In order for us to more thoroughly review our records and provide a more complete response, we would request a 30-day time extension within which to comply with your request.

We anticipate being able to provide all of the requested data to you by June 25, 2008. If you are in agreement to provide Williams with this 30-day extension, please sign in the space provided below and return one signed copy to me by facsimile to (918) 573-9755.

Thank you for your cooperation and assistance in this matter. If you have any question, please feel free to contact me.

Best regards,

Charles R. Brown
Director, Commercial Development

Accepted and Agreed this___day of____, 2008.

By:_____
Name:_____
Title:_____

Cc: Mike Ernest
Minerals Management Service
Minerals revenue Management
Onshore Compliance and Asset Management
PO Box 25165, MS 392B2
Denver, Colorado 80225

Chad R. Bracher
Commercial Development
Midstream
One Williams Center
Tulsa, Oklahoma 74172

P.O. Box 645, MD WRC 3-7
Tulsa, Oklahoma 74101-0645
918-573-3138

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VIA FEDEX

February 26, 2008

Mr. Jack Lougee
Federal Royalty Audit Supervisor
State of New Mexico
Taxation and Revenue Department
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

RE: Requests for Information

Dear Mr. Lougee:

Enclosed please find the information requested of Williams from the State of New Mexico, on behalf of the Minerals Management Service, in your letters dated May 10, 2007 and November 27, 2007. The information in the enclosed package includes:

Map of Manzanares System
The map depicts the major central delivery points (CDP), compressors, and plant sites.

Schematic of Milagro Plant and Esperanza Plant
There are two plant schematics included, one depicting the Milagro Plant and the other for the El Cedro Complex which is also referred to as the Esperanza Plant. The Milagro schematic has recently been updated and is in a more simplified format. However, the El Cedro Complex schematic has not been updated since 1997 and may not necessarily depict the most current layout but it is the most current we have available.

(B)(4)

List of metered points including volumetric and properties data
We have included data for the months of January 2006 and July 2006 to provide winter and summer representation. The report provides the meter number, meter name, meter purpose, monthly volume, monthly average pressure, and the CO_2

content of the gas. (B)(4)

Fuel usage report

The fuel usage report enclosed lists all of the metered fuel points across the gathering system and treating plants.

List of Manzanares producers for the last five years

The enclosed list shows those shippers that have had gathering and treating agreements with Williams for the Manzanares System. We use the term "shipper" rather than "producer" since some contracted entities are marketing aggregators that possess title or rights to ship the gas on our system but may not produce the wells themselves. Please note that we have also included any name changes due to acquisitions.

List of Manzanares compressors

The list enclosed represents ownership and specifications of the compressor sites on the Manzanares Gathering System and the Esperanza Plant. There are no compressors located at the Milagro Plant as the field compressors and boosters provide pressure sufficient to treat and deliver the gas to the downstream pipelines. Those compressors highlighted in red represent those units that are physically in place but are currently not in service. The units are either owned by Williams or Williams' compression service provider, Exterran. Whether Williams owned or not, Exterran provides the daily servicing, maintenance, and overhauling of the units on behalf of Williams. All of the compressors on the Manzanares system have gas-fired engines rather than electric driven motors.

List of Manzanares dehydrators

Here we have listed the dehydration units physically in place, the manufacturer and the size of unit. We have also noted those units that are in place but are currently not in service. All of the dehydrators listed utilize glycol for dehydration rather than mole sieve.

Financial data related to Manzanares System and plants

The data represented is for years 2002 – 2006 as financial data for 2007 is not yet available. We have also included expenses for "typical" equipment on the Manzanares System, (B)(4)

All of the information contained is to be considered proprietary and confidential, and is meant only to be used for the purpose of facilitating the audit involving allowable costs related to Williams' bundled services for the Manzanares System.

Should you have questions related to the enclosed data please contact me at (918) 573-3138. Charlie Brown and I would also be willing to meet with you if further information or explanation is needed.

Best regards,

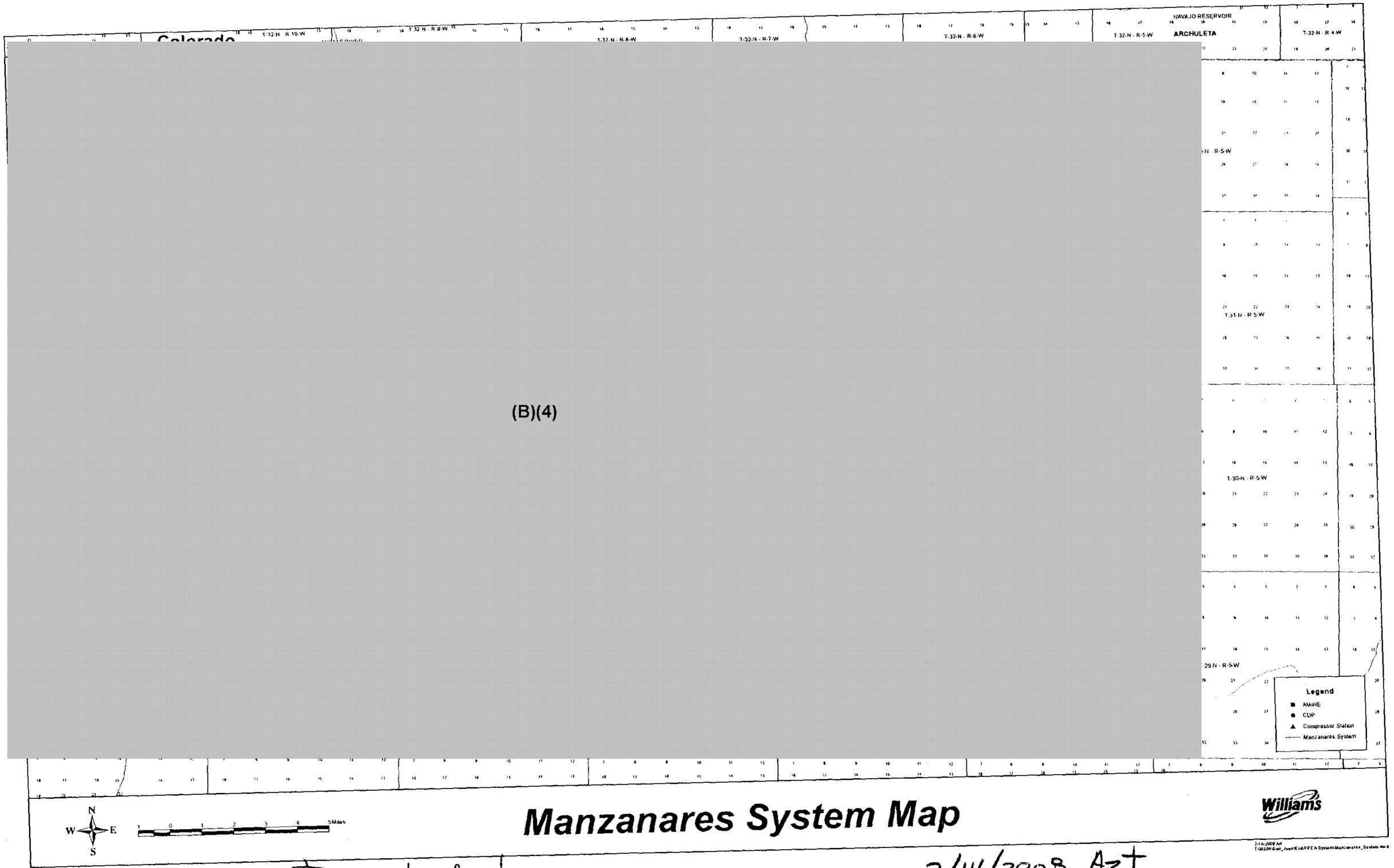
Chad Bracher
Commercial Development

Cc:
Mike Ernest
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
PO Box 25165, MS 392B2
Denver, Colorado 80225

Mary Williams
Minerals Management Service
Minerals Revenue Management
Onshore Compliance and Asset Management
PO Box 25165, MS 392B2
Denver, Colorado 80225

John Price, Chief of Enforcement
Minerals Management Service
Minerals Revenue Management
Office of Enforcement
PO Box 25165, MS 370B2
Denver, Colorado 80225

Morris Miller
Williams Production Company, LLC
PO Box 3102, MD 37-5
Tulsa, Oklahoma 74101



Manzanares System Map

Williams

want metadata
what PLSS grid?

2/14/2008 Art

MANZANARES_System.mxd

(B)(4)

| | | |

Manzanares Shippers by Year

2003	2004	2005	2006	2007
(B)(4)				

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Frame Model	Engine Mfg.	Engine Model	Site HP
(B)(4)								

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP

(B)(4)

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP
(B)(4)								

Additional Sites

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(B)(4)

(B)(4)

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP
(B)(4)								

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

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(B)(4)

STAGE

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP

(B)(4)

(B)(4)

(B)(4)

(B)(4)

Williams Manzanares Compressors

Compressor Site	OWNER	STG	Mfg. of Package	Frame Mfg.	Model	Engine Mfg.	Model	Site HP
(B)(4)								

(B)(4)

(B)(4)

(B)(4)

(B)(4)

(B)(4)

Williams Dehydration Unit			
Site	Manuf	Capacity	Comments
(B)(4)			

Site	Manuf.	Capacity	Comments
(B)(4)			

Williams Dehydration Unit			
Site	Manual	Capacity	Comments
(B)(4)	(B)(4)	(B)(4)	(B)(4)

(B)(4)

(B)(4)

Site	Manuf.	Capacity	Comments
(B)(4)			(B)(4)

Williams Financial Data and Typical Equipment Expenses

(000's)	Operating Costs					O&M				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4)									

	G&A				
	2006	2005	2004	2003	2002
Manzanares Gathering Milagro Plant	(B)(4)				

Typical Monthly Expenses [1]	Rental	O&M	Fuel
(B)(4)			

[1] 2006 typical expenses
[2] Typical dehydrator purchase price

Williams Manzanares Gathering System Allocation

A. **Location.** List of equipment locations for compressors and dehydrators known to be in use in 2006. Exhibits "A" and "B".

B. **Unit Type.** Type of compressor or dehydration unit from Exhibits "A" and "B".

C. **Unit Ownership.** Differentiates compressor ownership from Exhibit "A". All dehydration units and pipeline are owned by Williams.

D. **Direct Depreciation.** (B)(4) as calculated by New Mexico Oil & Gas Bureau on Exhibit "C", weighted by ownership.

E. **Indirect Depreciation.** Sum of all unknown locations' annual depreciation divided by the total number of units, weighted by ownership. Exhibit "C".

F. **Area Depreciation.** Sum of all like-named locations' annual depreciation divided by the total number of like-named units, weighted by ownership. Exhibit "C".

G. **Direct ROI.** Return on investment, as calculated by New Mexico Oil & Gas Bureau on Exhibit "C", weighted by ownership.

H. **Indirect ROI.** Sum of all unknown locations' ROI divided by the total number of units, weighted by ownership. Exhibit "C".

I. **Area ROI.** Sum of all like-named locations' ROI divided by the total number of like-named units, weighted by ownership. Exhibit "C".

J. **Rent.** Estimated annual rent paid in 2006 to Williams' compression service provider for use of its (B)(4) Listed on Exhibit "D".

K. **O&M.** Estimated annual operation and maintenance cost for 2006. For compressors, includes attributable O&M, unit overhaul reserve, and fluids expenses. Listed on Exhibit "D".

L. **Total Costs.** Sum of all depreciation, ROI, rent, and O&M costs.

Indirect Locations: (B)(4)

Area Locations (B)(4)

12/18/2008

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Williams Financial Data and Typical Equipment Expenses
Exhibit "D"

(000's)	O&M 2006	O&M 2005	O&M 2004	O&M 2003	O&M 2002	G&A 2006	G&A 2005	G&A 2004	G&A 2003	G&A 2002
Manzanares Gathering A	(B)(4)									

(B)(4)

2006 Typical Monthly Equipment O&M

Compression	Williams Owned O&M*	Williams Owned Fluid	Williams Owned O/H Resv.	Williams Owned **Total**	Exterran Owned Rent	Exterran Owned O&M	Exterran Owned Fluid	Exterran Owned **Total**
(B)(4)	(B)(4)				(B)(4)			

Dehydration	O&M	O/H Resv.	Fluid	**Total**
			(B)(4)	

* O&M proxy

Williams Manzanares Allocation
Example

(B)(4)

Location	Unit Type	Unit Ownership	Direct Depreciation	Indirect Depreciation	Area Depreciation	Direct ROI	Indirect ROI	Area ROI	Rent	O&M	Total Costs
(B)(4)											

	Total	Exterran	Williams
Units			
Total Indirect Depreciation			
Total Indirect ROI			

	Total	Exterran	Williams
Units		(B)(4)	
"29-6" Area Depreciation			
"29-6" Area ROI			

Appurtenances Costs = total units)
Unit Costs = Williams units)

Williams Unit = total units) + (B)(4) Williams units)
Exterran Unit = total units)

Williams

COPAS Fall Meeting
Natural Gas Gathering Overview

October 24, 2007

Introduction

Williams

- Industry Overview
- Need For Midstream
- How It Works
- Challenges
- Contracting
- Wrap-Up
- Questions

Midstream Business

Williams

- Purify & prepare natural gas for the marketplace.
- Primarily centered on providing services to natural gas producers (upstream) and movement of fungible energy commodities towards consumers (downstream).
- Services include gathering, compression, dehydration, treating and processing of natural gas.
- Functions include fractionation, transportation and storage of natural gas liquids (NGLs) produced in processing facilities.

Industry Overview

Williams.

- Mature Industry
  - Declines
- Dependent on Drilling
- New US Frontiers
  - Deep Water
  - Colorado
- Players Consolidating
  - MLPs
  - Need Financial Strength

Need For Midstream

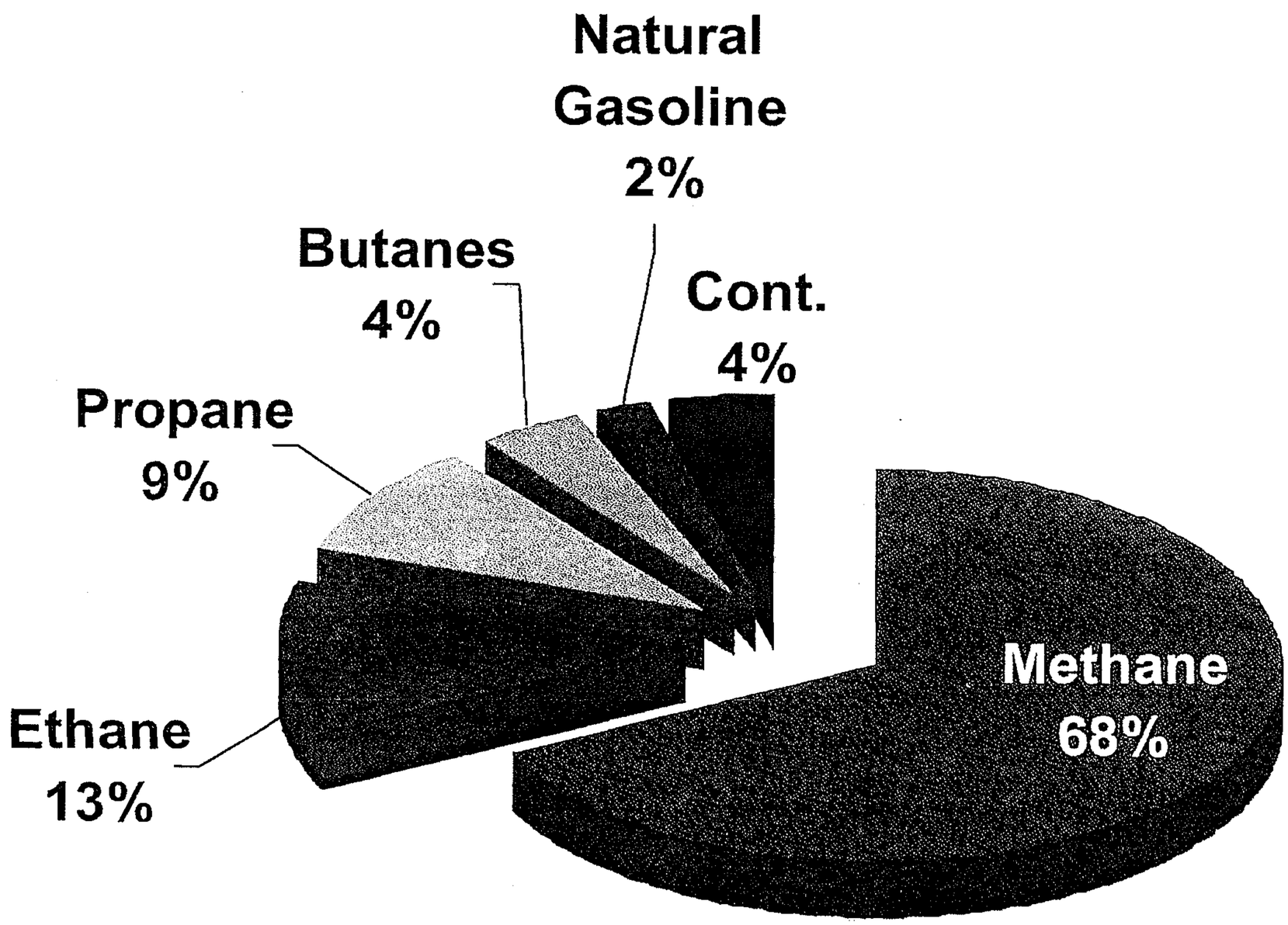
Williams

Why does the industry exist?

- Condition
  - Compress
  - Clean Up
    - Dehydrate
    - Treat
    - Process
- Fragmented Ownership
  - Aggregate

Typical Unprocessed Conventional Gas

Williams.



Contaminants

Williams

Unprocessed gas

- Water
- Liquefiable Hydrocarbons
- Oxygen
- Carbon Dioxide
- Hydrogen Sulfide
- Condensate
- Brine and Salt
- Dust & Particulates
- Crude Oil
- Lube Oil
- Drilling Fluids
- Corrosion Inhibitors
- Amines and Glycols
- Nitrogen
- Iron Sulfides
- Paraffin
- Arsenic
- Mercury

Pipelines

- Rabbits
- Skunks
- Fish
- Welding Rods
- Pipe scale
- Welding slag
- Red rags
- Nuts and Bolts
- Plywood
- Sand and Dirt
- Polyethylene pipe shavings

How It Works

Williams.

- Well Connect
  - Meter, EFM, Pipeline
- Processing Conventional Gas
  - Cryogenic (-150° F)
  - Refrigeration (-40° F)
  - Lean Oil Absorption
  - Optionality
  - Compression Differences
- Treating Coal Gas
  - Amine
- Dehydration
  - Mechanical
  - Molecular Sieve

How It Works - Compression

Williams.

- Compression Equipment
  - Turbine
  - Reciprocating
  - Ambient Temperature Impact

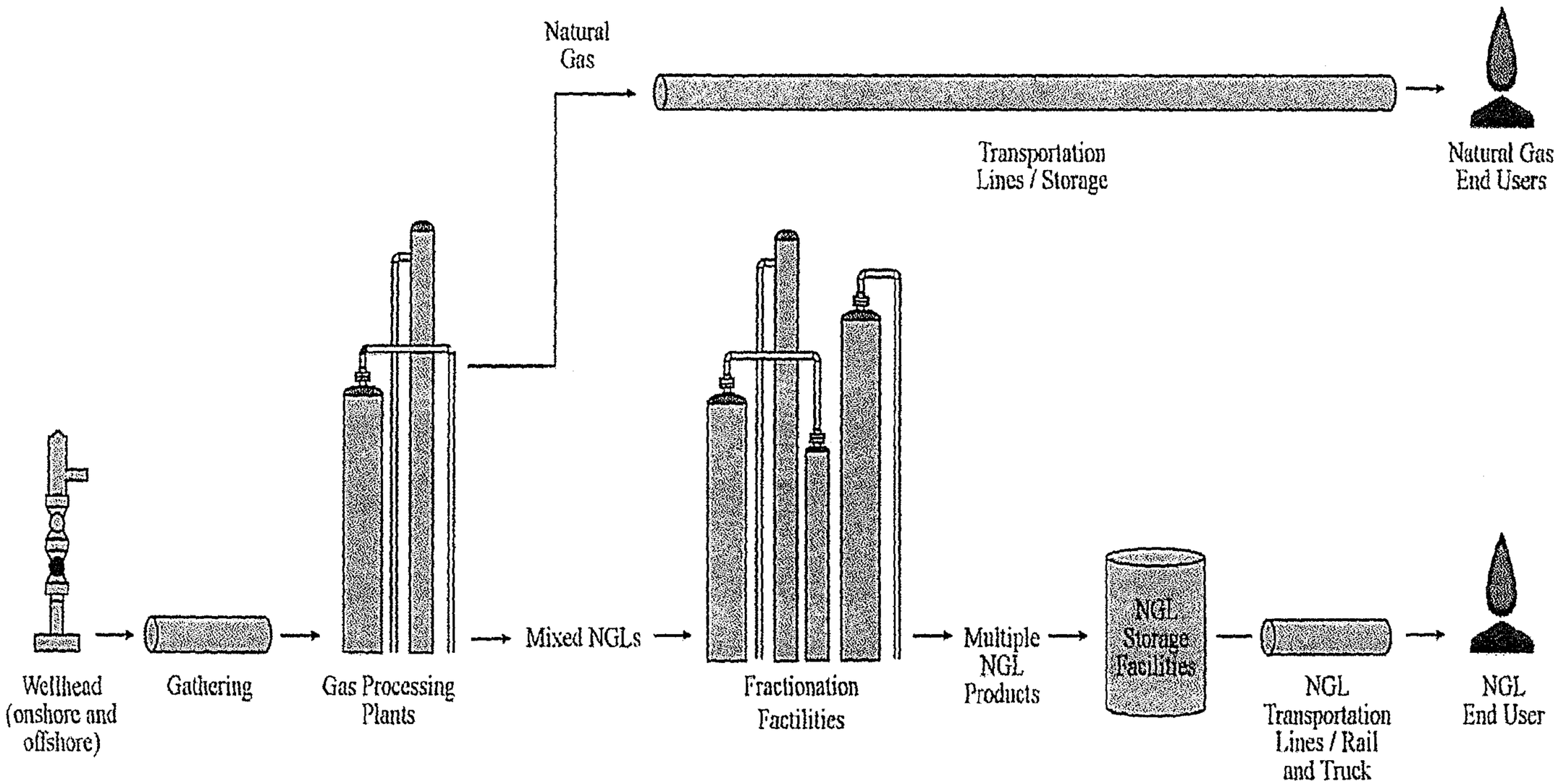
- Compression Function
  - Wellhead
  - Central Delivery Point
  - Booster
  - Processing Re-compression
  - Refrigeration
  - Power Generation

How It Works

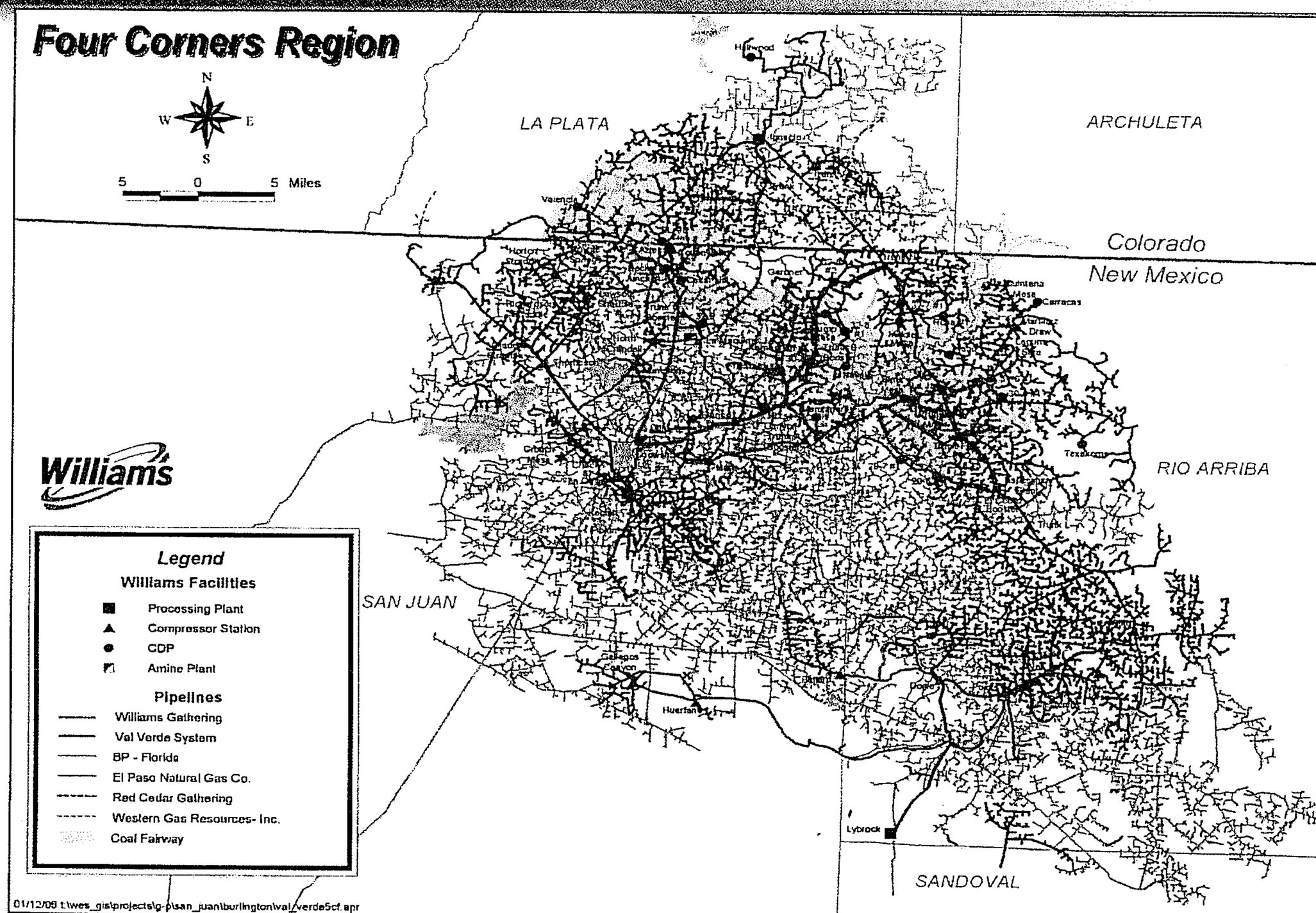
Williams.

- Pipeline vs Compression
  - Reliability
  - Costs
  - Timing
  - Regulation
- Coal Gas vs Conventional Gas

Midstream Example



Gathering System Example



Challenges

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- Governmental Organizations (GOs)
  - Air Quality
  - Land Access
- Non-Governmental Organizations (NGOs)
  - Lawsuits
- Landowners
  - Cost of Access
- Rising Costs
  - Labor
  - Equipment

Contracting

Williams

- Gathering & Processing
  - Fee
  - Percent of Value
  - Fuel
- Service Reliability
  - Well Connection
  - Flow
  - Pressure
  - Process & Treat Capacity

Wrap-Up

Williams

- Conclusions

- Questions?

Calculation of Allowances under Arm's-Length Transportation Contracts

(§206.110)

What Principles Apply to Arm's-Length Allowances?

- Allowances based on reasonable actual costs
- Must demonstrate contract is arm's-length
- Do not need MMS approval
- If contract reflects more than transportation costs, may have to calculate costs as non-arm's-length
- Must calculate as non-arm's-length if MMS finds that consideration paid doesn't reflect reasonable value due to misconduct or breach of duty to market

How will MMS Use the "Unreasonable Value" Provision?

- MMS will not use this provision simply to substitute its judgment of the reasonable oil transportation costs under your arm's-length contract
- Arm's-length costs higher than other transportation cost measures are insufficient by themselves for MMS to determine that actions were unreasonable or in bad faith in transporting oil from the lease

How do I Allocate Costs if More Than One Liquid Involved?

- If more than one liquid is involved and your arm's-length transportation contract doesn't break out costs, then
  - Must use same allocation proportion as ratio of volume of each product to volume of all liquid products
  - May not claim allowance for non-royalty-bearing products
  - May request MMS approval of allocation based on value of products transported

How do I Allocate Costs Among Gaseous and Liquid Products?

- If your arm's-length transportation contract includes both gaseous and liquid products and costs attributable to each cannot be determined, you must propose an allocation procedure
- May use procedure until accepted or rejected by MMS
- Submit initial proposal within 3 months of claiming allocated deductions

What Other Details Apply to Arm's-length Allowances?

- Must convert consideration paid to a dollar-per-unit basis
- If contract has transportation factor, do not report as allowance on MMS-2014
  - May use factor in determining gross proceeds for sale of product
  - Must get MMS approval before claiming transportation factor greater than 50% of product value

Calculation of Allowances Under Non-Arm's-Length Transportation Contracts

(§206.111)

What Costs May I Include for Non-Arm's-Length Allowances?

- Based on your or your affiliate's reasonable actual costs
- Actual costs
  - Operating and maintenance
  - Overhead
  - Depreciation
  - Return on undepreciated capital investment
  - Return on 10% of total capital investment once system is depreciated below 10% of investment

What Capital Costs May I Include for Non-Arm's-Length Allowances?

- Allowable capital costs
  - depreciable fixed assets that are integral part of transportation system
  - costs of delivery and installation of capital equipment

What Operating Costs May I Include for Non-Arm's-Length Allowances?

- Allowable operating expenses
  - Operations supervision & engineering
  - Operations labor
  - Fuel and Utilities
  - Materials and Supplies
  - Ad valorem property taxes
  - Rent
  - Other directly attributable operating expenses

What Other Costs May I Include for Non-Arm's-Length Allowances?

- Allowable maintenance expenses
  - Maintenance of transportation system
  - Maintenance of equipment
  - Maintenance labor
  - Other directly allocable and attributable maintenance expenses
- Overhead directly allocable and attributable to operation and maintenance of transportation system

What Costs May I Not Include in Non-Arm's-Length Allowances?

- Costs not allowable
  - State & Federal income taxes
  - Severance taxes
  - Other fees including royalties

What Principles Apply for Depreciation?

- Depreciation election
  - Straight line
    - life of equipment
    - life of reserves
  - Unit of production method
- Cannot change method without MMS permission
- Cannot depreciate equipment below reasonable salvage value

How do I Determine My Depreciation Schedule?

- If you own a pipeline on June 1, 2000, base your depreciation on your purchase price or construction costs (including reinvestment).
- New depreciation schedule for pipelines purchased before June 1, 2000, applies only to transportation of production after that date.

How do I Determine My Depreciation Schedule?

- If you purchase a pipeline at arm's length, generally you may use your purchase price as the new depreciation basis.
- If you purchased the pipeline between March 1, 1988, and June 1, 2000, depreciation will involve 2 calculations: one through May 31, 2000 based on initial costs and another based on purchase price and prorated for June 1-December 31, 2000.

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How do I Determine My Depreciation Schedule?

- If as of June 1, 2000, you are the original owner of the pipeline, or if you purchased the pipeline before March 1, 1988, you must continue to use your existing depreciation schedule in calculating actual transportation costs for production periods after June 1, 2000.
- But, if you purchase the pipeline after June 1, 2000, from anyone other <u>than the original owner</u>, you would assume the depreciation schedule of the person who owned the pipeline on June 1, 2000.

Example 1--Depreciation Calculation

- Assume that a pipeline was built in 1989 for $3,000,000
- Assume a second lessee purchased the pipeline at arm's length on January 1, 1995 for $10,000,000
- Assume straight-line depreciation over 10 years
- The undepreciated balance at the beginning of year 2000 is $5,000,000
- The lessee may claim 7/12 of $1,000,000 in depreciation for the period June 1-December 31, 2000 but may not revise depreciation claimed earlier on the original $3,000,000 cost basis.

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Example 2--Depreciation Calculation

- Assume the lessee purchases a pipeline on January 1, 2001, from the second owner of the pipeline for $10,000,000
- Assume that the pipeline has a depreciated balance of $5,000,000 as of January 1, 2001 and that it had been depreciated on a straight-line basis over 10 years beginning in 1996
- For allowance purposes, the undepreciated balance for the new owner at the beginning of year 2001 is $5,000,000, which may be depreciated over the next five years

What Rate of Return is Allowed, and How do I Apply It?

- Remains 1 x industrial bond yield for Standard & Poor's BBB rating
- Calculate return on undepreciated capital balance by multiplying beginning-of-period remaining capital investment times the BBB rate then in effect

How do I Apply the Rate of Return?

- May take return on 10% of total capital investment after system has been depreciated below 10% of investment
- Also applies to pipelines that were depreciated below 10% before June 1, 2000
- But cannot adjust previous allowances; applies only to production after June 1, 2000

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Example of Continued ROI

- Assume $10,000,000 initial capital investment in a pipeline with a 10-year depreciable life
- Assume straight-line depreciation and a 9% ROR at the beginning of year 11
- In year 11, even though depreciation is complete, the allowance costs are equal to the lessee's operating and maintenance costs plus a $90,000 ROI (0.09 x 10% x $10,000,000)

How do I Allocate Costs for Multiple Liquid Products?

- **Calculate transportation deduction on basis of cost of transporting each product through each individual transporting system**
- **If more than one liquid product, allocate costs equitably for each product transported using same proportion as ratio of volume of each liquid product to volume of all liquid products**
- **No deduction allowed for non-royalty-bearing products**
- **Can propose a cost allocation method to MMS on basis of values of products transported**

How do I Allocate Costs for Transporting Gaseous and Liquid Products?

- If transporting gaseous & liquid products through same system, must propose cost allocation to MMS
- Can use proposed allocation until approved or denied
- If denied, amend MMS-2014's and pay additional royalties & interest if necessary
- Submit proposal within 3 months after first claiming the allocated deductions

N:\CAM\Fed\Western\Bill's files\Special Projects\New Mexico\ (B)(4)
contract\unbundling charges (B)(4) Plant.doc

Hello Valdean,

You emailed us on August 16, 2007, regarding bundled charges in a contract between (B)(4) (B)(4) The contract is a keep-whole agreement processing with added services, including:

- Gathering,
- Dehydration,
- Treating

I apologize for not getting back to you sooner. I've been waiting for the un-bundling instructions, but that may be quite a while. I'm going to address other aspects of the questions you asked.

The contract specifies an (B)(4) It also states (B)(4) (B)(5)

The contract also identifies a (B)(7)(e) the (B)(4) (B)(4) (B)(5) (B)(7)(e)

You asked

- Whether MMS would allow the differential between the "Initial Gathering and Processing Fee" and the "Low Density Deliverability Gathering and Processing Fee" as a cost to determine Federal value.
- If the MMS considers the dehydration service an allowable cost.
- If the answer matters if the contract is a keep-whole contract.
- If the cost is not allowed, how do auditors determine what portion of the fee is associated with this service.

Keep-whole agreements are addressed in the Reporter Handbook, Volume III, Production Valuation, 4.3.5. Please refer to that section for general information on how keep-whole agreements must be reported.

Since this contract is a keep-whole agreement, the sales point is after processing. As such, the transportation rules apply for moving gas from the property to the sales point away from the property. MMS regulations at 30 CFR 206.157 (g) lists several non-allowable costs in determining transportation allowances, including penalties incurred as a shipper. A low-volume fee is not specifically in the list. But the regulations specifically say the non-allowable costs are not limited to the list

(B)(4) (B)(5) (B)(7)(e) (B)(4) (B)(5) (B)(7)(e) e r

Again I apologize for the delay.

Created by William Douglas Created on 9/11/2007 8:44:00 AM

Status and Update - Unbundling Project
May 12, 2008
1:00 – 2:00
Mile High Room

1. John Price and Sarah Inderbitzin classes on natural gas valuation and marketable condition > Now what?
2. Bundled fees and marketable condition – Add the Devon Decision flow chart – PSC – quality – point of SMC? – plumbing
3. Allowances and reasonable, actual costs
   a. Non Arms Length – Define actual costs via "laundry list"
   b. Arms Length – Define actual costs X Fee charged vs cost of service
4. 2014 reporting, netbacks and gross proceeds – producer –
5. Markets and "typical contracts" ← TYPICAL FOR AREA ((B)(4)
6. ARMS, NARMS, APOP and POOL sales codes ←
7. Onshore and offshore considerations
8. Current studies
   a.
   b. (B)(4)
   c.
   d.
9. Pending studies
   a. (B)(4)
   b.
10. More action, more people, more e-room

Form 3100-11
(July 2006)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial Number

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (page 2) offers to lease all or any of the lands in Item 2 that are available for lease pursuant to the Mineral Lands Leasing Act of 1920, as amended and supplemented (30 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands of 1947, as amended (30 U.S.C. 351-359), or _____(other).

READ INSTRUCTIONS BEFORE COMPLETING

1. Name
   Street
   City, State, Zip Code

2. This application/offer/lease is for: *(Check Only One)* ☐ PUBLIC DOMAIN LANDS ☐ ACQUIRED LANDS (percent U.S. interest _____)

Surface managing agency if other than Bureau of Land Management (BLM): _____ Unit/Project _____

Legal description of land requested: *Parcel No.: _____ *Sale Date (mm/dd/yyyy): _____

***See Item 2 in Instructions below prior to completing Parcel Number and Sale Date.**

T.	R.	Meridian	State	County

Total acres applied for _____

Amount remitted: Filing fee $ _____ Rental fee $ _____ Total $ _____

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T.	R.	Meridian	State	County

Total acres in lease _____

Rental retained $ _____

This lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in Item 3 together with the right to build and maintain necessary improvements thereupon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

NOTE: This lease is issued to the high bidder pursuant to his/her duly executed bid or nomination form submitted under 43 CFR 3120 and is subject to the provisions of that bid or nomination and those specified on this form.

Type and primary term:

☐ Noncompetitive lease (ten years)

☐ Competitive lease (ten years)

☐ Other _____

THE UNITED STATES OF AMERICA

by _____
(BLM)

_____
(Title) (Date)

EFFECTIVE DATE OF LEASE _____

(Continued on page 2)

Sec. 3. Bonds - A bond must be filed and maintained for lease operations as required under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage - Lessee must exercise reasonable diligence in developing and producing, and must prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require lessee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee must drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection - Lessee must file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessee must furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidably lost. Lessee may be required to provide plats and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs. In the form prescribed by lessor, lessee must keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee must keep open at all reasonable times for inspection by any representative of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or in the leased lands. Lessee must maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records must be maintained in lessee's accounting offices for future audit by lessor. Lessee must maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section will be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations - Lessee must conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee must take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to siting or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-way. Such uses must be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee must contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor inventories or short term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessee must immediately contact lessor. Lessee must cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations - To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium - Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessee or owner of the gas. Lessee must include in any contract of sale of gas the provisions of this section.

Sec. 9. Damages to property - Lessee must pay lessor for damage to lessor's improvements, and must save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity - Lessee must pay, when due, all taxes legally assessed and levied under laws of the State or the United States; accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If lessee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee must comply with section 28 of the Mineral Leasing Act of 1920.

Lessee must comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessee nor lessee's subcontractors must maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease - As required by regulations, lessee must file with lessor any assignment or other transfer of an interest in this lease. Lessee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which will be effective as of the date of filing, subject to the continued obligation of the lessee and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises - At such time as all or portions of this lease are returned to lessor, lessee must place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of producible wells.

Sec. 13. Proceedings in case of default - If lessee fails to comply with any provisions of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease will be subject to cancellation unless or until the leasehold contains a well capable of production of oil or gas in paying quantities, or the lease is committed to an approved cooperative or unit plan or communitization agreement which contains a well capable of production of unitized substances in paying quantities. This provision will not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver will not prevent later cancellation for the same default occurring at any other time. Lessee will be subject to applicable provisions and penalties of FOGRMA (30 U.S.C. 1701).

Sec. 14. Heirs and successors-in-interest - Each obligation of this lease will extend to and be binding upon, and every benefit hereof will inure to the heirs, executors, administrators, successors, beneficiaries, or assignees of the respective parties hereto.

(Continued on page 4)

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worthiness. For example, expectations about the seller's performance may be based, in part, on the seller's annual deliveries relative to its existing reserves. The buyer, on the other hand, is evaluated by its ability to make payments from current and expected income. Because performance may take the form of a payment equivalent to the amount of gas stipulated in the contract at current prices, the financial integrity of the seller is also important. For example, if the seller is unable to deliver the amount of natural gas indicated in the contract, the contract may specify that the seller pay the buyer suf-ficient funds to obtain replacement gas from another source.

The establishment of creditworthiness is often a time-consuming component of the natural gas contracting process. But time spent in establishing creditworthiness is saved later in more efficient contracting for gas shipments. If the company is an affiliate of another larger, possibly more creditworthy, parent company, then the parent company may be asked to guarantee any debt stemming from the contract.

Use of Underground Storage

Companies can also address supply reliability by contracting for storage services. This strategy can be effectively used by both the purchaser and the seller. Underground storage facilities are most frequently situated near major consuming or major producing areas. An end user in Ohio, for example, frequently contracts for storage services from a nearby storage operator in Ohio or Pennsylvania in order to obtain gas on peak days, when the pipeline system from producing areas is operating at full capacity. In turn, a producer may develop storage close to the producing area as a backup in case production problems develop, such as well freezeoffs.

The recent upswing in the number of storage operations in producing regions has increased greatly the reliability of gas supplies because many of these storage operations are salt dome storage with high deliverability and because producers use many of these facilities, in effect, to augment production capacity. (See Chapter 4 for a discussion of current storage capacity.)

Storage service contracts enable the end user to minimize the need for expensive swing contracts or other peaking service contracts. The availability of storage in production areas also enables producers to avoid purchasing gas from other producing companies during peak demand periods when gas is expensive. Underground storage is an excellent way to manage both daily and seasonal supply risks, yet it is costly to use for price risk management because the cost of storing gas can easily add a dollar per thousand cubic feet or more to the price.[37]

[37]Energy Information Administration, "The Expanding Role of Underground Storage," *Natural Gas Monthly*, October 1993, DOE/EIA-0130(93/10) (Washington, DC, October 1993); and "New Projects Are Abundant But Is the Need There?" *Gas Daily's Gas Storage Report* (Rosslyn, VA: Pasha Publications, May 1993), pp. 1-12.

Natural Gas Transportation Contracts

Under Order 636, the transportation services that had become available under open access regulation continue, but have been augmented by a variety of new services. Pipeline companies continue to offer firm service, limited firm service,[38] and interruptible service. Under Order 636, most customers who formerly had firm bundled sales service from the pipeline companies converted their contracts to firm transportation. Both these new shippers and experienced transportation customers will need to use some of the new services offered by pipeline companies, such as balancing, storage, and no-notice service. In addition, the capacity release program instituted by Order 636 offers all industry participants a new option for obtaining transportation services, either on a long-term or short-term basis.

Using New Transportation Services

Many of the new services have been made available because of changes in pipeline company operations resulting from unbundling.[39] Formerly, as owners of the gas in their systems, pipeline companies had been able to use storage and direct the flow of gas to meet customer demands, even if customers exceeded scheduled volumes. Today, because pipeline companies generally do not own the gas flowing through their systems, they cannot use gas belonging to one shipper to compensate for an unexpected change in demand from another shipper. Thus new services have been developed to provide shippers with alternatives to incurring operation-related penalties and to help the industry better manage gas flows under individual contracts.

To understand how some of these services may be used, it is useful first to describe how a transportation contract is implemented. The process begins when the shipper obtains capacity from a pipeline company or through capacity release. Once a shipper has a right to use capacity, it *nominates*, in writing or in electronic form, the daily amount of gas it wants to be received, delivered, or stored by the pipeline company. The shipper nominates capacity at specific receipt and delivery points along the pipeline system. The nomination of daily volumes may be renewed or changed on a monthly basis and

[38]Limited firm service is firm service that is subject to interruption for a specified amount of time each month—up to 10 days is possible. The service is designed to offer a less expensive, firm service to customers who can tolerate a greater risk of interruption, such as those with fuel-switching capability.

[39]The information in this section is based on Interstate Natural Gas Pipeline Association (INGAA), *Interstate Pipeline Services For Customers After Restructuring*, Report No. 93-5 (December 1993), and discussions with INGAA staff.

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may be for any quantity up to the maximum daily quantity (MDQ) specified in the contract.

Next, the pipeline company *confirms* each shipper's nomination and inquires into any needed changes. Because there are many shippers making nominations, the pipeline company must look at the aggregate quantities and determine whether the pipeline system can tolerate the overall level of nominations during the confirmation process.

Once the pipeline company ascertains that the system can handle all shipper nominations, it *schedules* the gas, specifying gas flows in and out of each receipt and delivery point. The pipeline company determines priorities based upon type of service. For example, firm service will be scheduled ahead of interruptible service, and primary delivery points ahead of secondary.

The penalties included in today's transportation contracts are intended to encourage shippers to make their gas flows match the quantities for which they have contracted on both a daily and a monthly basis. Such penalties include:

- Scheduling variance penalties—incurred when the daily flow of a shipper's gas does not match the nomination level
- Overrun penalties—incurred when the shipper's maximum daily quantity is exceeded
- Imbalance penalties—incurred at the end of the month if total receipts into the pipeline do not match total deliveries to the shipper.

No penalty will be assessed if the shipper keeps its gas flows within the tolerance levels stipulated in the transportation contract. Tolerances are typically set at 5 to 10 percent so that a shipper may, for example, be slightly above or below its nomination level on a given day and not incur a scheduling variance penalty. The shipper must be aware, however, that even if it remains within the daily tolerance level, the buildup of variances during a month may result in an imbalance penalty at the end of the month.

A pipeline company may choose to waive penalties depending on the cause of the variance and whether or not operational difficulties were created. Generally, however, shippers can monitor their gas flows so that penalties are not incurred, and use other services to augment the firm transportation contract and avoid penalties. The options a shipper may choose from include:

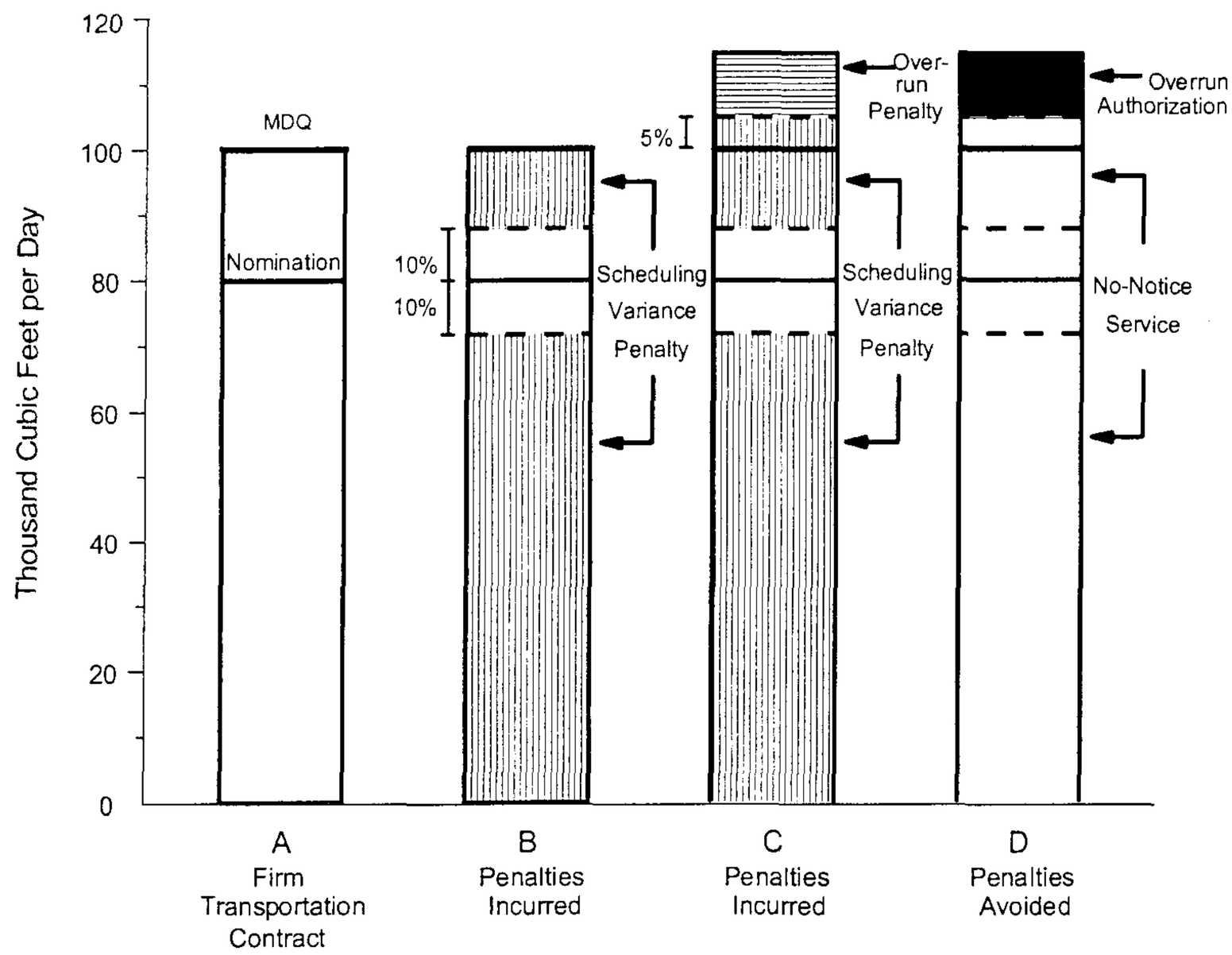
- Purchasing no-notice service
- Requesting overrun authorization
- Arranging to be covered by an operational balancing agreement (OBA).[40]

Shippers can use a combination of services, system monitoring, and a nomination level that provides them with the least-cost means of obtaining gas transportation. Some shippers, for example an industrial customer with a fairly constant demand for gas, may feel they have little risk of incurring penalties. For such customers, the least-cost approach may simply be to pay an occasional penalty rather than to acquire another contract to protect against a limited risk. For other shippers, the potential penalties may be sufficient to warrant contracting for additional protection.

To see how supplemental contracts may be used to avoid daily penalties, consider the case of a firm shipper with a weather-sensitive load, such as an LDC serving mainly residential and commercial customers (Figure 20). To meet peak demand, this LDC has a firm transportation contract with an MDQ of 100 thousand cubic feet (Mcf) per day. Assume that it is early in the heating season so that the LDC only nominates 80 Mcf per day to be delivered during the month (Figure 20, Example A). If the contract specifies a 10-percent scheduling tolerance, then the LDC may take anywhere from 72 to 88 Mcf per day without incurring a scheduling variance penalty (Example B). If a cold snap hits the region, the LDC may find it not only has to exceed its scheduling tolerance, but may have to exceed its MDQ, possibly incurring an overrun penalty (Example C). If the overrun tolerance is 5 percent, then the LDC can take up to 105 Mcf per day and still only incur the scheduling variance penalty. If the LDC takes more than 105 Mcf per day, it will also incur an overrun penalty.

[40]Through an operational balancing agreement, the operators of interconnection facilities will resolve imbalances throughout the month among multiple shippers, so that individual shippers do not incur an imbalance penalty at that point.

Figure 20. Transportation Penalties: Incurrence and Avoidance



MDQ = Maximum daily quantity.
Source: Energy Information Administration, Office of Oil and Gas.

Depending on the LDC's expectations of demand variance, its ability to track gas use on its system, and its experience in supply and transportation contracting, the LDC may choose to use only a firm transportation contract and run the risk of incurring penalties, or it may choose to purchase other services. For example, a no-notice service contract with the pipeline company would enable the LDC to take quantities of gas below or above its scheduling tolerance, up to its MDQ, without incurring a penalty (Example D). However, under such a contract, the LDC must make its own supply arrangements by obtaining enough gas and storage capacity to meet its no-notice demand. It will also have to bring its deliveries back into tolerance within a given time period. The LDC can avoid the overrun penalty by requesting overrun authorization from the pipeline company.

An alternative to careful monitoring or the use of supplemental contracts to avoid penalties is to contract with a marketer for transportation services. For a fee, the marketer will see that the customer's gas requirements are met and will take responsibility for any penalties that are incurred. The marketer, like any shipper, will attempt to minimize penalties, for example, by choosing a transportation path covered by OBA's.

The opportunities and complexities of gas transportation today go beyond the issue of penalties. A discussion of the wider issues involved in gas transportation is presented in the following section.

Moving Gas—Wellhead to Burnertip

The process of obtaining natural gas has changed radically for downstream customers who formerly took title to the gas at a market area delivery point. Customers now have the opportunity to evaluate the costs of purchasing gas from different regions and transporting it along different pipeline systems. However evaluating these choices, and monitoring gas flows, or obtaining contracts to avoid operational penalties, also represent a cost for the gas customer. Marketers offer a variety of services, and some even offer a combination of gas sales and transportation that mimics the bundled service formerly offered by pipeline companies. The

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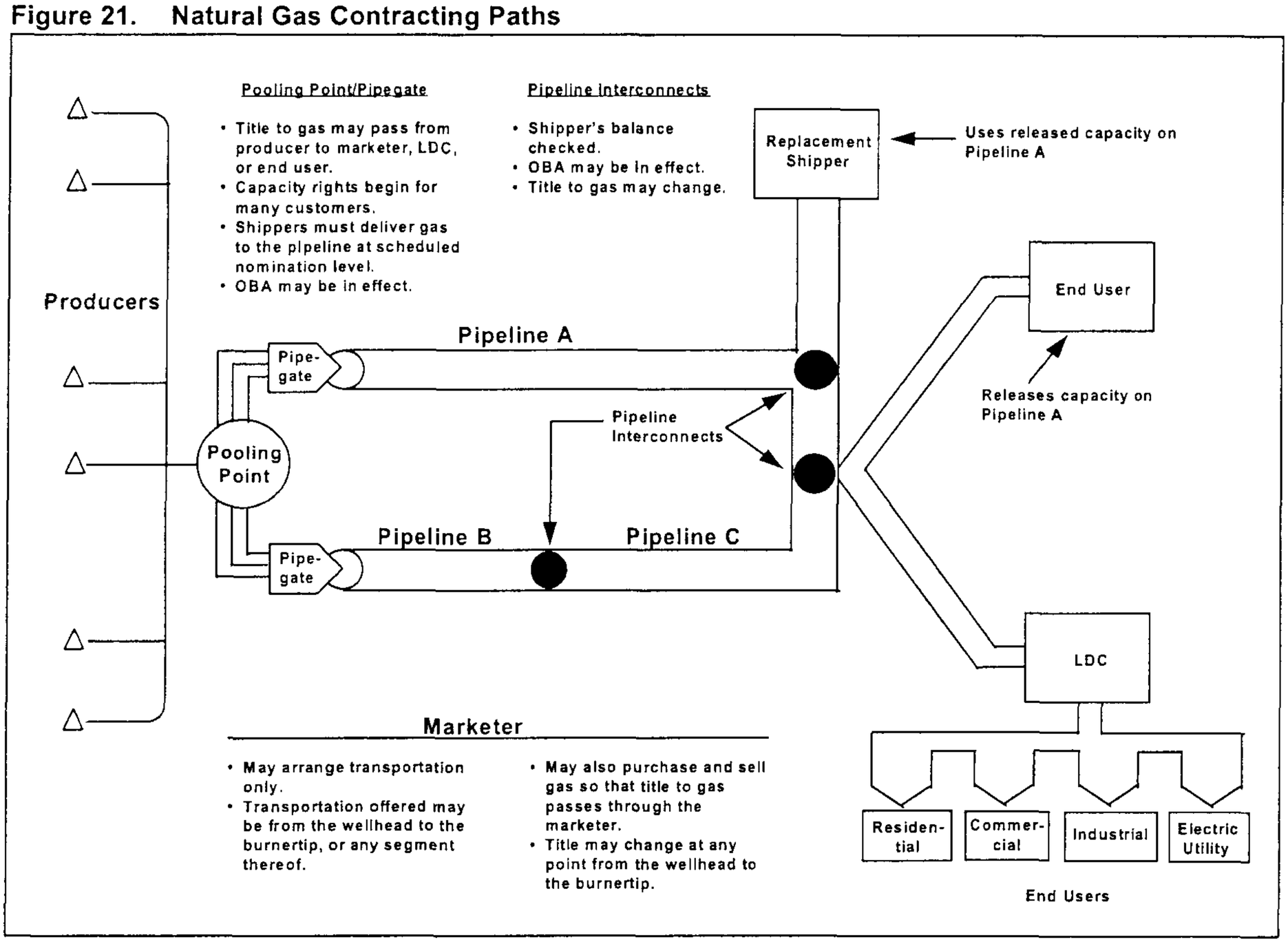
Figure 21. Natural Gas Contracting Paths



LDC = Local distribution company. OBA = Operational balancing agreement.
Source: Energy Information Administration, Office of Oil and Gas.

capacity release program of Order 636 offers yet another transportation option to the industry—the opportunity for the releasing shipper to recover some costs, and the opportunity for replacement shippers to obtain a higher quality of service or to use a different transportation route than would otherwise be available. The myriad of choices faced by gas customers today can best be illustrated by some examples.

An End User—Contracting Directly

Many end users gained experience in arranging separate supply and transportation contracts under open access. For example (Figure 21), an end user follows wellhead prices and purchases the most economical gas it can find, considering the price of the commodity and the feasible transportation routes to its facility. While some gas purchasers may buy gas at a pooling point, where the price will include a markup for transportation from the production area, this end user buys gas at the wellhead and makes its own arrangements for transportation on a gathering line from the production area to the pipegate of Pipeline A. The end user then becomes a shipper on Pipeline A by entering into a firm transportation contract to have the gas moved to its facility along Pipeline A.

However, if the end user sees that its gas requirements will be reduced for a period of time, it may want to take advantage of the capacity release program instituted by Order 636. The end user would announce on Pipeline A's electronic bulletin board that it has a certain amount of capacity for release during a specified period of time. Pipeline Company A would evaluate all the bids that are received for this release package and award the capacity to the replacement shipper with the best bid. If all parties satisfy their obligations under the release contract (see box, p. 71), then:

- The end user, or releasing shipper, would receive some reimbursement for the reservation charge it is paying for unneeded capacity.
- The replacement shipper would receive transportation service it could not otherwise obtain.

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Liabilities Under Capacity Release

The capacity release program of Order 636 introduced a whole new area of contracting for the natural gas market. When a shipper releases capacity, complex issues arise as to the releasing and replacement shippers' obligations under the original transportation contract.

The Releasing Shipper Is Liable for the Reservation Charge

The releasing shipper's liability depends upon the contract between the releasing shipper and the pipeline company. When a replacement shipper is awarded released capacity, the replacement shipper is responsible for paying the bid amount, which is the replacement shipper's reservation charge. However, Order 636-A holds the releasing shipper liable to the pipeline company for debts such as the shipper's reservation charge. Thus, the releasing shipper must pay any portion of the reservation charge not covered by the replacement shipper's bid amount. Also, it must compensate the pipeline company for any failure of the replacement shipper to pay its reservation charge, up to the releasing shipper's original charge. In some cases, the pipeline company may agree to amend the contract to shift liability to the replacement shipper. Such a shift of liability may become common where the capacity release is permanent (i.e., for the remainder of the contract term). Even in cases where the pipeline company markets the capacity that is released, the releasing shipper, not the pipeline company, is liable for the reservation charge.

FERC has stated that the rate used to calculate the replacement shipper's reservation charge cannot be higher than the maximum rate for the pipeline company's firm transportation service. The releasing shipper receives credit for the reservation fee paid by the replacement shipper to the pipeline company. If the fee paid by the replacement shipper is higher than that owed by the releasing shipper, the releasing shipper keeps the difference.

The Replacement Shipper Is Liable for Usage Charges

In addition to the bid amount, the replacement shipper is responsible for all transportation usage charges, any surcharge on the usage charge, and any penalties. There are two main contractual issues with regard to the usage fee. First, if a pipeline company offers a usage discount to the releasing shipper, it is not required to offer the same discount to the replacement shipper. Second, the releasing shipper is not liable for the replacement shipper's failure to pay usage charges. Pipeline companies therefore bear the risk that replacement shippers may default on usage charges (or on penalties and late charges unrelated to the reservation charge). In order to clarify the replacement shipper's responsibilities and mitigate possible risks, pipeline companies may require replacement shippers to execute a contract for the released capacity as soon as possible after the bid has been awarded. Pipeline companies need to implement procedures to cover situations where the replacement shipper defaults and the releasing shipper needs to terminate the release.

- The pipeline company would earn income from higher throughput on its system than would have occurred without the release program.

An LDC—Using a Marketer

Prior to Order 636 many gas users obtained their gas through a single bundled sales contract with a pipeline company. Consider, an LDC that had such a contract through its single pipeline supplier, Pipeline C (Figure 21). Being inexperienced at tracking wellhead prices and evaluating transportation options, the LDC now seeks a marketer that can rebundle the sales and transportation services it needs. The marketer may decide to supply this LDC with gas it can obtain under contract with producers or with gas it has already transported to a pooling point. The marketer evaluates all the transportation options and chooses to serve the LDC through Pipelines B and C because an operational balancing agreement is in place at the interconnection between these two pipelines. Thus the marketer, who is the shipper under the transportation contracts, will be protected from any imbalance penalties. The fee charged by the marketer will reflect the cost of satisfying the LDC's requirements, including the options the marketer chooses for dealing with scheduling variances created by shifts in demand on the part of the LDC.

When choosing a transportation service, shippers must evaluate not only the transportation rates charged by different pipeline

companies, but the quality of the related services offered, such as no-notice, and the feasibility of different routes for bringing purchased supplies to the delivery point.

The Portfolio Decision

The previous sections addressed separately most aspects of supply (or commodity) contracts, transportation capacity contracts, and financial contracts. This was done to isolate important features of these contracts and to emphasize that many buyers negotiate contracts with different parties when obtaining these services. However, buyers of gas must consider the contracts as a group to ensure that the set of contracts reliably and economically satisfies their specific requirements for gas service as well as other management objectives.

The important differences between supply and transportation markets are also reflected in the development of contract portfolios. First, buyers usually have numerous choices for supply acquisition, either purchasing directly from a producer in a supply area or from a pooling point. However, capacity access is more limited. A buyer usually has access to only a few long-distance interstate pipeline systems for moving the gas from the original purchase site. Second, purchasers are faced with substantial variability in prices on a day-to-day basis. Commodity prices are unregulated and show rapid responses to changes in market conditions. Buyers typically enter into contracts for less than 2 years to ensure that costs of the commodity closely reflect market conditions. In contrast, transportation rates can fluctuate as well, but within a minimum and maximum range set by FERC. Because of the greater price stability and the capacity release market, customers are more likely to sign longer term contracts (5 or more years) for transportation services.

A gas purchaser must consider all contracts within the context of a portfolio of contracts for gas services to ensure that:

- Expected demands for a planning period are covered by contracts for gas supply and for pipeline capacity.
- Periods of peak demand are supported by contracts for highly reliable sources of gas supply and pipeline capacity.
- Contracts are diversified as to the length or term of the contract to enable the company to benefit from advantageous price movements.
- Contracts are diversified across locations to promote supply reliability.
- Sufficient contracts are being used for balancing, nominating, and scheduling services if problems are anticipated in these areas.
- Price risk protection is incorporated where appropriate.
- Overall costs are minimized, taking into account the level of service required.
- The cost of gas service will, over the long term, closely follow the overall market.

Reliability and Price

In developing a contract portfolio, purchasers face numerous tradeoffs between supply reliability and price. The decisions made by each company are tied to its own or its customers' seasonal demands (load profile) for natural gas, and the company's location and size (see box, p. 73).

Fuel-Switching Customers

For companies with fuel-switching facilities, the most important consideration may be obtaining fuel at the lowest cost. Supply reliability can be effectively handled by their ability to switch quickly to an alternative fuel. This capability was itself obtained through a tradeoff between reliability of energy service and cost. In this tradeoff, the gain from being able to purchase energy in the oil and gas market was calculated to be greater than the cost of investing in fuel-switching and oil storage equipment.

The portfolio held by this type of company would be focused on short-term supply contracts closely tracking market prices and low-cost transportation contracts. Because of the company's capability to switch to an alternative fuel, it can afford the risk of getting bumped off a pipeline system and would thus choose the relatively inexpensive interruptible capacity contract, or obtain released capacity.

Large Industrial Customers

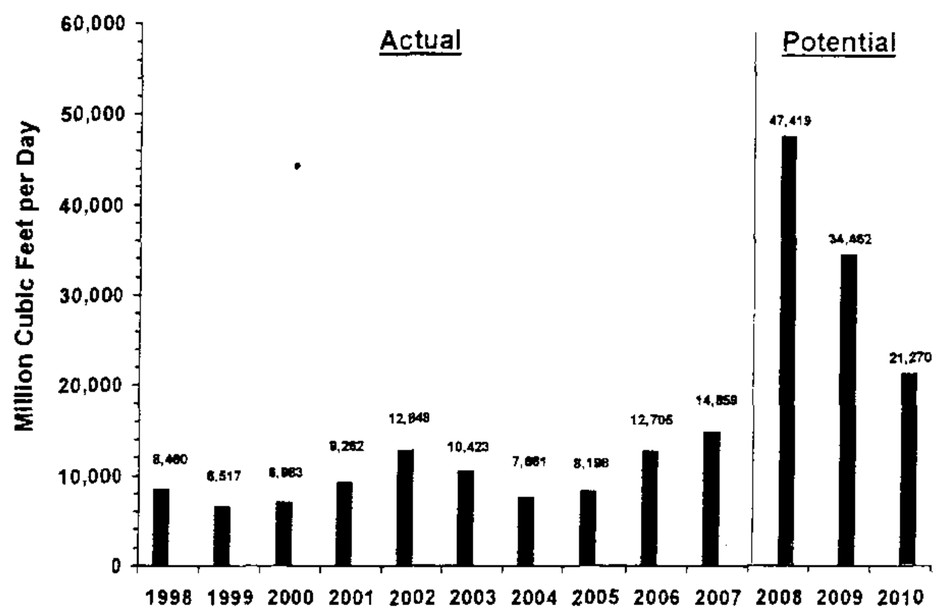
The decisions facing a large industrial customer, such as a chemical manufacturing plant using natural gas as a feedstock, can be quite different. This plant needs a reliable

Additions to Capacity on the U.S. Natural Gas Pipeline Network: 2007

This report examines new natural gas pipeline capacity added to the U.S. natural gas pipeline system during 2007 and the areas of the country where those additions were concentrated. In addition, it discusses and analyzes proposed natural gas pipeline projects that may be developed between 2008 and 2010 and the market factors supporting these initiatives. Questions or comments on this article should be directed to Damien Gaul at damien.gaul@eia.doe.gov or (202) 586-2073, or James Tobin at james.tobin@eia.doe.gov or (202) 586-4835.

U.S. natural gas pipeline construction activity accelerated in 2007 with capacity additions to the grid totaling nearly 14.9 billion cubic feet (Bcf) of daily deliverability (Figure 1). These additions were the largest of any year in the Energy Information Administration's (EIA) 10-year database of pipeline construction activity. The increased level of natural gas pipeline construction activity in 2007 conformed to a growth trend that began slowly in 2005 and intensified in 2006. In 2007, about 1,700 miles of pipeline were installed, which was greater than in any year since 2003 (Figure 2).

Figure 1. Natural Gas Pipeline Capacity Additions, 1998-2010



Note: Only projects under construction or approved that were judged to have the most likelihood of being completed in 2008 were included in 2008.
Source: Energy Information Administration, GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database, as of May 2008.

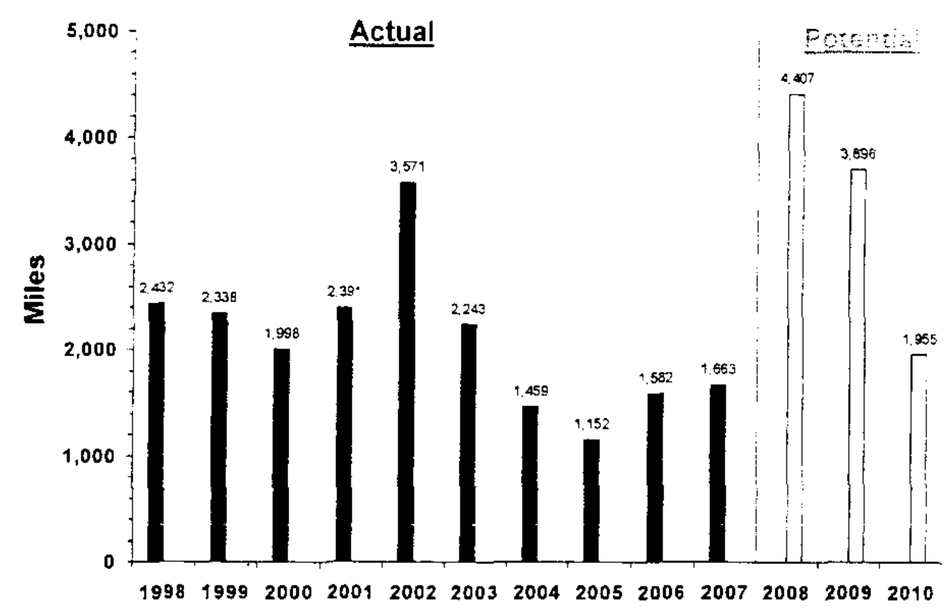
The expansion cycle for natural gas pipeline construction is occurring at the same time as the development of the natural gas resource base in North and East Texas, particularly the Barnett Shale and Bossier Sands, and increased drilling in the Rocky Mountains. Forty percent of the 50 pipeline projects completed in 2007 were associated with new production in Texas and the Rocky Mountain States of Utah, Colorado and Wyoming (included in the Central Region for this report). Projects completed in the Rocky Mountain area accounted for 26 percent of all new natural gas pipeline capacity (3.9 Bcf per day) installed during the year, while those completed in Texas accounted for another 27 percent (4.0 Bcf per day).

Numerous pipeline expansions also are occurring in response to construction of import terminals for liquefied natural gas (LNG), which is received for U.S. markets from overseas suppliers on specially built tankers. These supplies, which arrive at various marine terminals in liquid form, are returned to a gaseous form and transported by pipeline to distribution companies for subsequent retail sales, industrial consumers, and electric power sector. In response to higher prices and higher costs for domestic supplies, LNG imports are expected to grow significantly in the next several years. In fact, new construction and expansion of LNG terminals or LNG-related pipeline infrastructure is currently underway in several regions of the United States, as well as in Mexico and Canada.[1]

The cost of pipeline construction activity in 2007 is estimated at $4.3 billion for the 50 completed projects (Table 1, with map included as Figure 3). These expenditures represent an increase of 87 percent over costs for completions in 2006, when costs totaled $2.3 billion for the addition of 1,582 miles of new pipeline and 12.7 Bcf per day of new capacity to the grid. This article discusses the results of this investment in various pipeline projects completed during 2007, as well as the general trends underlying the infrastructure developments.

Highlights

Figure 2. Additions to Pipeline Mileage, 1998-2010



Note: Only projects under construction or approved that were judged to have the most likelihood of being completed in 2008 were included in 2008. Remaining unlikely 2008 scheduled projects included under 2009.
Source: Energy Information Administration GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database, as of May 2008

Even as the pace of additions to the U.S. natural gas pipeline grid slowed significantly earlier this decade, several trends were developing in the U.S natural gas marketplace that would eventually lead to the current investment escalation. These underlying trends included the mature degree of exploitation of conventional natural gas resources in areas such as in the Gulf of Mexico region, as well as increased demand for natural gas in the electric power sector. These

[1] Energy Information Administration, *LNG Imports – The Next Wave* (Washington, D.C. January 2007). Available on the Internet at: http://www.eia.doe.gov/emeu/steo/pub/pdf/LNG_Jan2007.pdf

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Table 1. Natural Gas Pipeline Construction Projects Completed in 2007, by Terminating Region

Ending Region & State	Begins in State -- Region		Map Key	Pipeline - Project Name	FERC Docket Number (Interstate Projects)	Type of Project	In Service Date	Estimated Cost (Million Dollars)	Miles	Additional Capacity (MMcf/d)[1]
Central										
WY	WY	Central	1	Questar Overthrust - Wamsutter Expansion	CP06-423	Compression[2] /Lateral[3]	01-Dec-07	202	77	750
WY	WY	Central	2	Jonah - Phase V Expansion	Not applicable	Compression	01-Nov-07	300	0	650
UT	UT	Central	3	Questar - Southern System Expansion	CP07-25	Looping[4] /Compression	01-Nov-07	108	59	175
WY	UT	Central	4	Wyoming Interstate - Kanda Lateral	CP07-14	Lateral	01-Dec-07	121	123	406
WY	WY	Central	5	Rockies Express - Processing Plant Lateral	CP07-383	Lateral	15-Nov-07	15	3	150
CO	NM	Central	6	TransColorado - Blanco-to-Meeker Expansion	CP06-401	Compression	31-Dec-07	58	0	250
CO	CO	Central	7	Northwest - Parachute Expansion	CP06-45	Lateral	15-May-07	58	38	450
CO	WY	Central	8	Rockies Express - West (Entrega)	CP04-413	New Pipeline[5]	15-Feb-07	560	192	750
WY	WY	Central	9	Fort Union Gathering - 2007 Expansion	Not applicable	Looping/Compression	31-Oct-07	41	43	240
ND	MT	Central	10	Williston Basin - Grasslands Expansion	CP07-131	Compression	01-Dec-07	6	0	41
MN	IA	Central	11	Northern Natural - Northern Lights Project	CP06-403	Looping/Extension[6]	31-Oct-07	129	79	374
IA	KS	Central	12	Northern Natural - Palmyra North Expansion	CP06-433	Compression	31-Oct-07	9	6	44
							Subtotal	**1,607**	**619**	**4,280**
Midwest										
IL	IL	Midwest	13	Kinder Morgan - Chicago Pipeline	CP06-455	New Pipeline	20-Dec-07	13	3	360
OH	OH	Midwest	14	Columbia Gas Ohio - Delaware County Extension	Not applicable	Extension	01-Dec-07	14	10	100
							Subtotal	**27**	**13**	**460**
Canada										
ON	**IL**	**Midwest**	**15**	**Vector - 2007 Phase 1 Expansion**	**CP06-29**	**Compression**	**13-Nov-07**	**70**	**0**	**245**
							Subtotal	**70**	**0**	**245**
Northeast										
MA	MA	Northeast	16	Algonquin - Northeast Gateway LNG	CP05-383	Lateral	15-Dec-07	180	16	800
MA	MA	Northeast	17	Algonquin - Cape Cod Lateral	CP06-143	Lateral	01-Dec-07	15	4	38
MA	NY	Northeast	18	Tenneco - Northeast ConneXion	CP05-412	Compression	01-Nov-07	111	0	136
NY	PA	Northeast	19	Transco - Leidy-to-Long Island Expansion	CP06-34	Looping/Compression	13-Dec-07	162	15	100
NJ	PA	Northeast	20	Texas Eastern -TIME II Expansion Phase 1	CP06-115	Looping/Compression	30-Nov-07	117	22	150
DE	PA	Northeast	21	Eastern Shore - 2007 Expansion	CP06-53	Looping/Compression	15-Dec-07	8	11	10
MD	**NC**	**Southeast**	**22**	**Transco - Potomac Expansion**	**CP06-421**	**Looping/Compression**	**09-Nov-07**	**88**	**19**	**165**
VA	VA	Northeast	23	Columbia Gas - Storage Link Expansion	CP05-144/PF04	Looping	01-Apr-07	55	34	175
WV	WV	Northeast	24	Columbia Gas - Hardy Storage Lateral	CP05-150	Lateral	01-Mar-07	49	13	175
							Subtotal	**784**	**134**	**1,749**
Southeast										
FL	GA	Southeast	25	Southern Natural - Cypress 2007 Phase 1	CP05-388	New Pipeline	01-May-07	240	167	335
FL	FL	Southeast	26	Florida Gas Transmission - Phase VII Expansion	CP06-01	Looping/Compression	22-Dec-07	64	17	95
							Subtotal	**304**	**184**	**430**
Southwest										
LA	TX	Southwest	27	Centerpoint - Perryville Expansion	CP06-85	New Pipeline	01-Apr-07	425	172	1,237
LA	LA	Southwest	28	Regency Intrastate - North LA Expansion	Not applicable	Compression	06-Jun-07	17	0	200
LA	LA	Southwest	29	Centerpoint - Elm Grove Expansion	CP06-168	Looping/Compression	15-Feb-07	18	18	140
LA	LA	Southwest	30	Regency Intrastate - Bossier Loop Phase 2	Not applicable	Compression	01-Apr-07	5	0	100
LA	LA	Southwest	31	CrossTex - LIG Extension	Not applicable	Extension	01-Apr-07	90	74	200
TX	TX	Southwest	32	Centerpoint - Harrison Lateral Expansion	EM06-05	Looping	15-Mar-07	13	14	60
GM	GM	Offshore	33	Tenneco - Triple-T Extension	CP05-416	Lateral	14-Sep-07	22	6	200
GM	GM	Offshore	34	Tenneco - Deepwater Link Project	CP05-100	Extension	01-Jul-07	40	1	1,000
GM	GM	Offshore	35	Cleopatra - Gathering System Expansion	Not applicable	Lateral	31-Jul-07	36	21	375
LA	LA	Southwest	36	Pine Praire - Miller's Lake Lateral	CP04-379	Looped Lateral	04-Dec-07	28	14	600
LA	TX	Southwest	37	Trunkline - North Texas 2007 Expansion	CP06-452	Looping	20-Nov-07	179	45	625
LA	TX	Southwest	38	Sabine - Henry Hub Expansion	EM06-05	Compression	30-Sep-07	16	0	50
TX	TX	Southwest	39	NGPL - North Lansing Loop	CP05-405	Looping	15-Aug-07	10	9	140
TX	TX	Southwest	40	Energy Transfer - Barnett-Texoma Expansion	Not applicable	Extension	01-Apr-07	360	135	700
TX	TX	Southwest	41	Eagle Energy - Extension Line	Not applicable	Extension	01-May-07	12	21	65
TX	TX	Southwest	42	Enbridge Pipelines - Marquez Plant Line	Not applicable	Lateral	31-Mar-07	65	56	250
TX	TX	Southwest	43	Crosstex - North Texas 2007 Expansion	Not applicable	Compression	01-Apr-07	20	0	125
TX	TX	Southwest	44	Pecan Palo - Pinto County Gathering Header	Not applicable	Lateral	01-Nov-07	32	26	250
TX	TX	Southwest	45	Falcon - Worsham Steed Storage Pipeline	Not applicable	New Pipeline	01-Oct-07	60	63	450
OK	OK	Southwest	46	Southern Star - Waynoka Lateral	Blanket Certif	Lateral	01-Sep-07	11	15	175
OK	**CO**	**Central**	**47**	**CIG Raton Basin 2007 Expansion**	**CP07-103**	**Looping/Compression**	**21-Sep-07**	**12**	**11**	**29**
							Subtotal	**1,471**	**700**	**6,971**
Western										
AZ	**MX**	**Mexico**	**48**	**North Baja - Flow Reversal Phase I**	**CP06-61**	**Compression/Lateral**	**15-Dec-07**	**4**	**2**	**614**
NV	NV	Western	49	Paiute - 2007 Expansion	Prior Notice	Looping	01-Nov-07	5	4	9
CA	CA	Western	50	Pacific Gas & Electric - Line 57C Lateral	Not applicable	Lateral	01-Nov-07	30	6	100
							Subtotal	**39**	**13**	**723**
						Total		**4,302**	**1,663**	**14,859**

[1] When announcing the design capacity for a proposed project or expansion, a pipeline company may provide either a volumetric (per cubic feet) or energy content (btu/therms) value. In this table, reported capacity figures are presented as volumetric (MMcf/d = million cubic feet per day) assuming a conversion factor of 1 MMcf/d = 1 thousand decatherms per day = 1 billion btu per day.

[2] May include placing additional compressor units at an existing station, the upgrading of existing units, or adding one or more new compressor stations to an existing system.

[3] A lateral refers to a new pipeline segment built to interconnect a new customer to a local major pipeline or to a local distribution company mainline.

[4] Looping refers to the installation of another segment of pipeline parallel to an existing pipeline segment and is used as a means of quickly increasing overall pipeline capacity and/or increasing line-packing (temporary storage) on a pipeline system.

[5] Denotes an entirely new pipeline entity which is not an extension of, or a lateral off of, an existing pipeline system

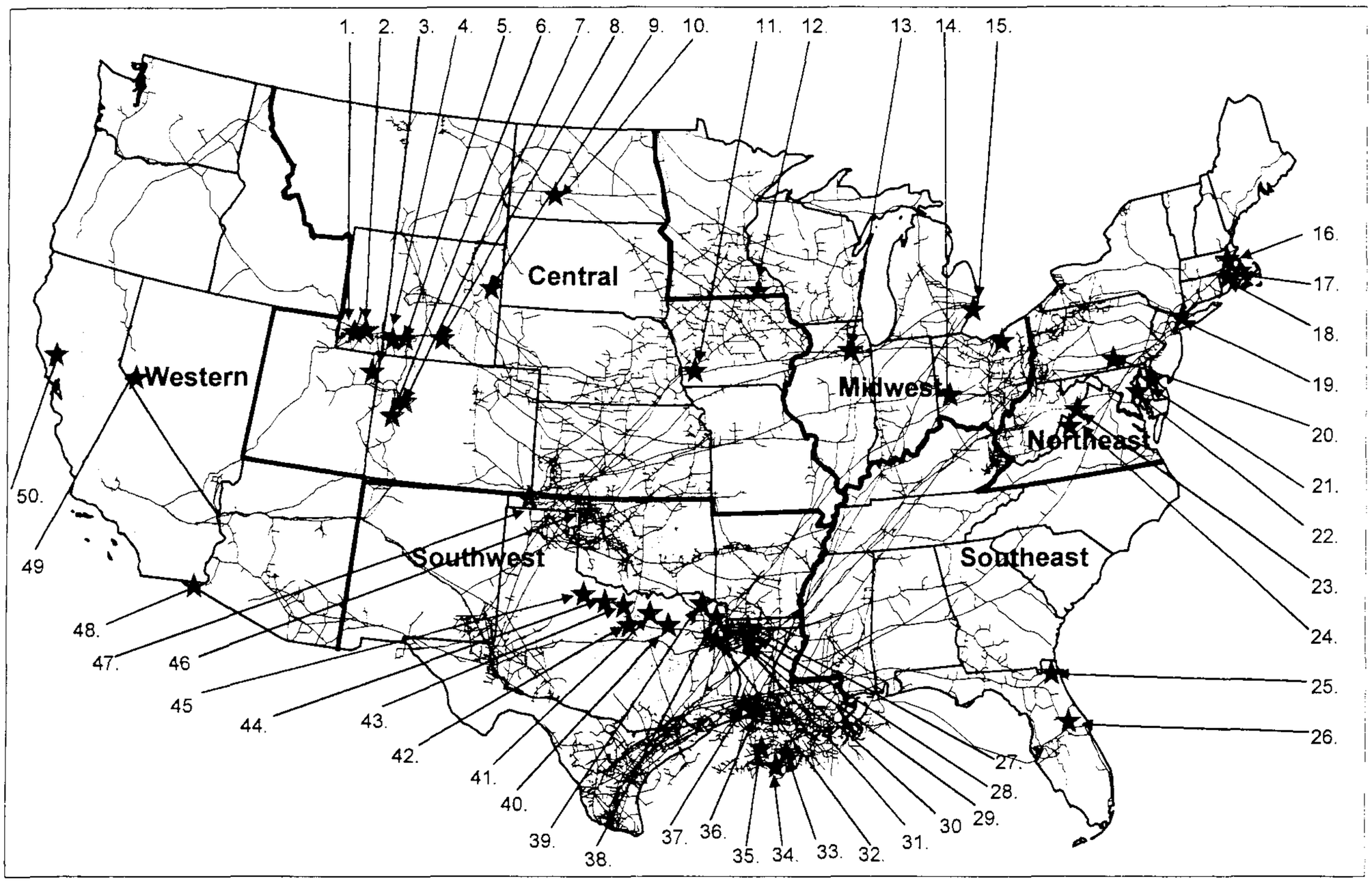
[6] An extension refers to the building of a new section of pipeline to a service area beyond the original termination point of the transmission system

GM = Gulf of Mexico.

Notes: Map Key references Figure 3. Interregional project is in **bold print.** In the table, a project that crosses interregional boundaries is included in the region in which it terminates. Offshore projects are included in the Southwest region. Totals may not sum due to independent rounding.

Source: Energy Information Administration, GasTran Natural Gas Transportation Information System. Natural Gas Pipeline Projects Database.

Figure 3. Locations of Natural Gas Pipeline Construction Projects Completed in 2007



Notes: Map keyed to Table 1. **Security:** EIA has determined that publication of this figure does not raise security concerns, based on the application of Federal Geographic Data Committee's *Guidelines for Providing Appropriate Access to Geospatial Data in Response to Security Concerns;* **Regions:** The six U.S. regions shown in this figure are based in whole or in part upon the 10 Federal regions as defined by the U.S. Department of Labor's Bureau of Labor Statistics.
Source: Energy Information Administration, GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database.

fundamental market features, along with other factors such as a series of devastating hurricanes in 2004 and 2005, resulted in higher prices this decade relative to the 1980s and 1990s, leading to increased investment in infrastructure to access new supply sources and provide expanded flows to end-use customers.

Increased domestic natural gas production appears to have been the driving force behind most of the natural gas pipeline capacity additions of 2007 and much of the proposed additions slated for installation by 2010. Between 1998 and 2006, natural gas production in the most rapidly expanding production areas of the nation (northeast Texas, Wyoming, Colorado, and Utah (Figure 4)) increased by 96 percent overall, while proved natural gas reserves grew by 127 percent.[2] For the nation as a whole (including these areas), however, production decreased by 1 percent, while proved reserves increased by 29 percent.

Thirty-six of the 50 projects completed in 2007 involved expansion of the interstate natural gas pipeline network, while the remainder improved capacity and transportation service on intrastate natural gas pipelines or new large-scale header (gathering lateral) systems designed to transport natural gas production from expanding natural gas fields. Of the 14 non-interstate natural gas pipeline projects completed during the year, about half involved adding new transportation capacity from developing production areas or constructing new intrastate pipeline sections to interconnect new production with the interstate pipeline network. Such projects were common in the expanding natural gas production areas of western Wyoming and Colorado and in the Barnett Shale formation of northeast Texas.

Many individual projects represent developments with industry-wide implications. For instance:

- The largest natural gas pipeline construction project completed in 2007 was Centerpoint Energy Company's Perryville expansion project, a 172-mile pipeline with 1.2 Bcf per day of capacity, linking Texas' intrastate pipeline systems to Perryville, Louisiana. The project is just one of several extensive infrastructure improvements that will transport increased supplies from the Barnett Shale and Bossier Sands areas on the interstate system.

[2]Based on data from the Energy Information Administration, *U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves Annual Report* 2006 and 1998, Table 8 (November 2007) and (November 1999). http://www.eia.doe.gov/oil_gas/natural_gas/data_publications/crude_oil_natural_gas_reserves/reserves_historical.html

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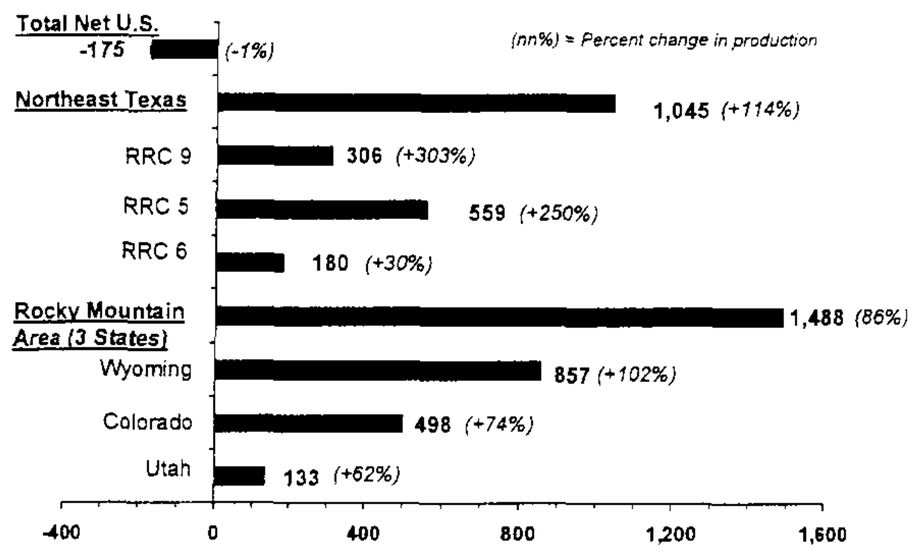
- In the Rocky Mountain area of western Colorado, Kinder Morgan Inc. and partners added 750 million cubic feet (MMcf) per day of capacity in the Rockies producing region. This project represented the first stage of the planned continental Rockies Express Pipeline system, which will eventually transport Wyoming/Colorado natural gas to northeastern U.S. markets. The second stage of the Rockies Express system, from eastern Colorado to eastern Missouri, was placed in full service in mid-2008 (portions located in Colorado and Kansas were placed in service in early 2008).

- In the Northeast, Algonquin Gas Transmission Company constructed a 16-mile, 32-inch-diameter pipeline to connect its pipeline network in New England to Excelerate Energy LLC's Northeast Gateway LNG terminal, which is located offshore from Gloucester, Massachusetts. This project marked the installation of the first pipeline designed to transport regasified LNG from a terminal in 2 decades.

Figure 4. Natural Gas Production Difference, 1998 to 2006 (Billion cubic feet)



Note: RRC = Texas Railroad Commission District.
Source: Energy Information Administration, U.S. Crude Oil and Natural Gas, and Natural Gas Liquids Reserves: 1998 and 2006 Annual Reports.

These construction projects, as well as other transportation additions out of North Texas and Rockies producing regions and additions related to LNG projects, will likely have a long-lasting impact on continental natural gas pricing and flows. For example, prices in western U.S. markets for much of this decade were substantially lower than in eastern U.S. markets because of constrained transportation for growing production, particularly out of the Rockies producing region. Regional price differences likely will go through a period of adjustment once the Rockies Express Pipeline is constructed. Already in 2008 (from January through April), the average price in Rockies trading locations was within 90 cents of the Henry Hub average price, compared with discounts exceeding $1.40 during the first third of the year in 2007.

Currently proposed natural gas pipeline expansion projects indicate the level of pipeline construction activity in the United States will increase substantially between 2008 and 2010, although many projects compete for markets and typically not all proposed projects are constructed. Approximately 200 projects, representing a potential 10,100 miles of new large pipeline and approximately 103 Bcf per day of capacity, already are being planned or have been approved by U.S. regulatory authorities. If all were actually completed, about 2 percent more pipeline miles would be added to the national pipeline grid and overall network capacity would increase by more than 38 percent. Current estimates for the cost of this effort total close to $28 billion.

National Overview

The transportation of natural gas through the U.S. pipeline grid occurs along several major corridors, such as from the Gulf of Mexico region to the Northeast or from the Rockies to the West Coast. Domestic pipeline transportation corridors from the Southwest to the Northeast and from the Southwest to Midwest have been the major paths for natural gas flows since the construction boom in the years following World War II. However, the network of pipelines is now nearly a continental phenomenon linking most production regions, including those in Canada, to multiple market centers and associated consuming regions.

In 2007, the vast majority of expansions and capacity additions were built to expand transportation capability in established corridors. However, project sponsors also embarked on creating a new corridor through the construction of the Rockies Express Pipeline, which will connect the Rockies with markets east of the Mississippi River, possibly reaching as far east as Pennsylvania when completed in 2010.

During 2007, there was also considerable progress in advancing LNG-associated pipelines in several different regions. Because much of the LNG construction activity is located in the Gulf of Mexico region, existing extensive infrastructure will be employed by project sponsors to get supplies to market. Yet, some network enhancements are needed, even in the Gulf. Additionally, significant new infrastructure is required for expanded and new terminals elsewhere in the country.

Overall, the interstate natural gas pipeline grid consists of more than 155 Bcf per day of capacity and approximately 212,000 miles of pipeline (Table 2). Interstate pipeline companies are regulated by the Federal Energy Regulatory Commission (FERC) and are mostly transportation-service companies under current regulations. Additionally, substantial pipeline capacity exists in Texas, Louisiana, and other States that is considered "intrastate" and, for many purposes, regulated by State authorities. Unlike FERC-regulated entities, intrastate pipeline operators often own supplies transported on their systems. EIA estimates

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Table 2. Thirty Largest U.S. Interstate Natural Gas Pipeline Systems, 2006

(Ranked by system capacity, million cubic feet per day (MMcf/d))

Pipeline Name	Market Regions Served	Primary Supply Regions	States in Which Pipeline Operates	Transportation volumes (billion cubic feet)	System Capacity (MMcf/d) [1]	System Mileage
Columbia Gas Transmission Co.	Northeast	Southwest, Appalachia	DE, PA, MD, KY, NC, NJ, NY, OH, VA, WV	1,792	9,000	10,318
Transcontinental Gas Pipeline Co.	Northeast, Southeast	Southwest	AL, GA, LA, MD, MS, NC, NY, SC, TX, VA, GM	2,751	8,161	10,412
Northern Natural Gas Co.	Central, Midwest	Southwest	IA, IL, KS, NE, NM, OK, SD, TX, WI, GM	950	7,200	15,743
ANR Pipeline Co.	Midwest	Southwest	AR, IA, IL, IN, KS, KY, LA, MI, MO, MS, NE, OH, OK, WI, GM	2,058	7,129	10,600
Texas Eastern Transmission Corp.	Northeast	Southwest	AL, AR, IL, IN, KS, KY, LA, MI, MO, MS, NJ, NY, OH, OK, PA, TX, WV, GM	1,241	6,672	9,176
Tennessee Gas Pipeline Co.	Northeast, Midwest	Southwest, Canada	AR, KY, LA, MA, NY, OH, PA, TN, TX, WV, GM	1,678	6,329	14,100
El Paso Natural Gas Co.	Western, Southwest	Southwest	AZ, CO, NM, TX	1,636	6,152	10,295
Dominion Transmission Co.	Northeast	Southwest, Appalachia	PA, MD, NY, OH, VA, WV	585	5,934	3,392
Natural Gas Pipeline Co. of America	Midwest	Southwest	AR, IA, IL, KS, LA, MO, NE, OK, TX, GM	1,709	4,508	9,297
Northwest Pipeline Corp.	Western	Canada, Central	CO, ID, OR, UT, WA, WY	676	4,500	3,865
Southern Natural Gas Co.	Southeast	Southwest	AL, GA, LA, MS, SC, TN, TX, GM	805	3,532	7,439
Centerpoint Gas Transmission Co.	Southwest	Southwest	AR, KS, LA, OK, TX	671	3,432	6,170
Colorado Interstate Gas Co.	Central	Central, Southwest	CO, KS, OK, TX, WY	733	3,170	3,979
Texas Gas Transmission Corp.	Midwest	Southwest	AR, IN, KY, LA, MS, OH, TN	725	3,098	5,609
Great Lakes Gas Transmission Co.	Midwest	Canada	MI, MN, WI	819	2,958	2,115
Gulf South Pipeline Co.	Southeast, Southwest	Southwest	AL, FL, LA, MS, TX, GM	510	2,946	6,532
Panhandle Eastern Pipeline Co.	Midwest	Southwest	IL, IN, KS, MI, MO, OH, OK, TX	579	2,840	6,376
Gas Transmission Northwest Corp.	Western	Canada	ID, OR, WA	805	2,636	1,356
Northern Border Pipeline Co.	Midwest, Central	Canada	IA, IL, IN, MN, MT, ND, SD	858	2,626	1,400
Southern Star Central Pipeline Co.	Central	Central	CO, KS, MO, NE, OK, TX, WY	317	2,526	5,725
Wyoming Interstate Gas Co.	Central	Central	CO, WY	699	2,330	725
National Fuel Gas Supply Co.	Northeast	Canada, Appalachia	NY, PA	309	2,312	1,502
Florida Gas Transmission Co.	Southeast	Southwest	AL, FL, LA, MS, TX, GM	737	2,206	4,869
Questar Pipeline Co.	Central	Central	CO, UT, WY	384	2,192	1,722
Algonquin Gas Transmission Co.	Northeast	Southwest	CT, MA, NJ, NY, RI	330	2,184	1,103
Columbia Gulf Transmission Co.	Southeast, Northeast	Southwest	KY, LA, MS, TN, GM	1,042	2,156	4,124
Alliance Pipeline Co. (US)	Midwest	Canada	ND, MN, IA, IL	646	2,053	888
Transwestern Gas Co.	Western	Southwest, Central	AZ, CO, NM, TX	629	2,048	2,362
Kern River Gas Transmission Co.	Western	Central	CA, NV, UT, WY	786	1,833	1,680
High Island Offshore System	Southwest	Gulf of Mexico	LA, GM	185	1,800	204
Sub-total				27,645	116,463	163,078
Other Interstate Systems (74)	--	--	--	8,433	39,000	49,389
Total				36,078	155,463	212,467

[1] Capacity levels are reported to the Federal Energy Regulatory Commission (FERC) in Btu, decatherms, or volumetric units. In this table and report, reported capacity figures are presented as volumetric (MMcf/d = million cubic feet per day) assuming a conversion factor of 1 MMcf/d = 1 thousand decatherms per day = 1 billion btus per day.

Note: GM = Gulf of Mexico.

Source: FERC, **Mileage & Transport**: FERC Form 2 & 2A "Major and Non-major Natural Gas Pipeline Annual Report," **Capacity**: FERC Annual Peak Day Capacity Report Section 284.13(d). *Transportation volumes (Line 5 of Gas Accounts in Form 2) may not represent all throughput on a pipeline during the year.*

that intrastate capacity exceeds 32 Bcf per day and intrastate pipeline systems extend over 76,000 miles.[3]

Pipeline companies are often operated as individual entities, although many "families" of pipelines are owned by larger corporations. El Paso Corporation is currently the owner of the largest family of pipelines, consisting of 43,000 miles of pipeline. Pipeline companies owned by El Paso include: Tennessee Gas Pipeline, Colorado Interstate Gas, Wyoming Interstate Gas, and El Paso Natural Gas. Kinder Morgan Incorporated, one of the developers of Rockies Express, also owns a variety of interstate and intrastate pipelines such as Natural Gas Pipeline of America and KM Interstate Transmission. Williams Companies owns Transcontinental Gas Pipeline Co. and Northwest Pipeline Corp.

Currently, the pipeline with the greatest deliverability (potential volume that can be delivered to customers at full operations) is the Columbia Gas Transmission system, which has 10,318 miles of pipeline and can transport up to 9.0 Bcf per day. Columbia Gas, which is owned by Indiana-based NiSource Inc., transports supplies to customers in the Northeast from production fields in the Appalachian Basin, as well as from the Gulf of Mexico region through a connection with affiliate Columbia Gulf Transmission at Leach, Kentucky.

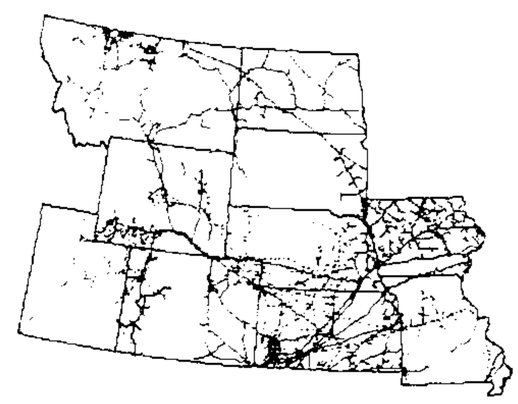
In 2007, only 4 of the 50 completed projects crossed regional boundaries, reflecting an emphasis on localized expansions or upgrades. Additions to interregional capacity during the year totaled only 1.1 Bcf per day overall, but they still totaled significantly more than the 2006 level of just 155 MMcf per day (two projects added to interregional capacity). The non-interstate projects completed in 2007 represented new intrastate natural gas pipelines or gathering system laterals designed to alleviate potential and developing natural gas pipeline capacity constraints in expanding production areas such as East Texas and the Rocky Mountain States of Colorado, Utah, and Wyoming.

In 2007, the largest 10 of the 50 projects accounted for 52 percent of added capacity (7.7 Bcf per day); most of these projects were production-oriented extensions and system improvements to interstate pipelines. In fact, 28 of the 50 projects completed in 2007 (representing more than 10.9 Bcf per day of capacity) were related to expanding supplies and improvements to supply-area transportation infrastructure. Eighteen projects, accounting for about 2.7 Bcf per day of new capacity, were oriented toward market areas; the other four projects, accounting for 3.4 Bcf per day of new pipeline capacity, were associated with laterals for new storage capacity.

[3]Energy Information Administration, *Changes in U.S. Natural Gas Transportation Infrastructure in 2005*, Table 2 (June 2006), http://www.eia.doe.gov/pub/oil_gas/natural_gas/feature_articles/2006/ngtrans/ngtrans.pdf

Regional Overview

Central Region



With production investment and natural gas supplies continuing to increase in the Rockies, infrastructure expansion has become critical for producers to transport supplies to markets. In 2007, approximately 4.3 Bcf per day of capacity and 619 miles of pipeline were added to the Central region's pipeline infrastructure. The additional capacity in the Central region was more than the capacity of other regional additions combined, excluding the Southwest region (where natural gas infrastructure is most concentrated).

Altogether, the infrastructure improvements in the Central region in 2007 are estimated to have cost more than $1.6 billion. Twelve projects were completed, with all but two projects representing improvements to interstate pipeline infrastructure. In a couple of instances, the projects were transportation links to move natural gas to a regional market center or hub for sales to either end users or marketers (but in either case, further transportation would be required).

The Central region experienced significant infrastructure growth in the past several years as producers ramped supplies, including unconventional production in the form of coalbed methane. The total number of projects completed in the region in 2007 was slightly more than in 2006 (when nine projects were completed, representing additions of about 3.9 Bcf per day). Between 1998 and 2007, 18.3 Bcf per day of capacity was added to the Central region's grid.

Again, by far the most significant infrastructure development taking place in the Central region is the construction of Rockies Express, a FERC-regulated interstate pipeline with a planned capacity of 1.8 Bcf per day. Rockies Express will transport supplies from the States of Colorado and Wyoming to a terminus in Ohio (and possibly Pennsylvania) by 2009. The first segment of the massive pipeline, which is the largest in the United States for more than two decades, was completed in 2006. The 2006 project, originally called the "Entrega Pipeline," consisted of laying 136 miles of 36-inch pipeline from Meeker Hub in Colorado to the Wamsutter Hub in Wyoming. From there, the pipeline sponsors in 2007 also constructed a 192-mile, 42-inch pipeline to the Cheyenne Hub in Colorado. This regional construction eventually provided the basis for the proposed pipeline out of the

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Central region and into the Midwest (Rockies Express-West) and, finally, the future extension of the pipeline from the Midwest to the Northeast regions (Rockies Express-East).

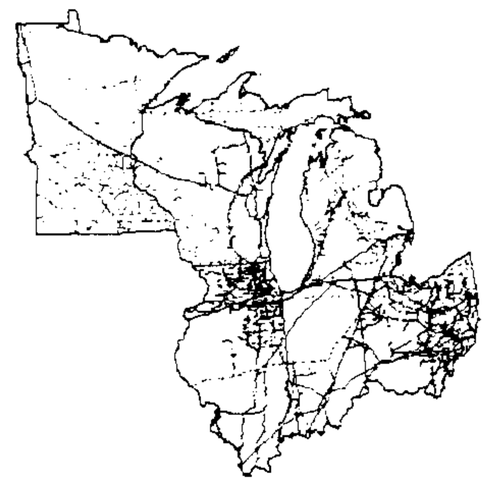
Along its proposed route, Rockies Express will interconnect with more than 25 intrastate and interstate pipelines transporting natural gas from the Gulf region as well as the Mid-continent, allowing for a readjustment of continental flows and price competition between Rockies production and supplies from other parts of the country. The 713-mile Rockies Express-West segment of the pipeline, which runs from the Cheyenne Hub in Wyoming to an interconnection with Panhandle Eastern Pipeline Company in Audrain County, Missouri, received FERC approval on April 19, 2007, and was completed in May 2008. Rockies Express-East, which was approved by FERC on May 30, 2008, would extend the pipeline another 638 miles to the Clarington Hub in Monroe County, Ohio. The Rockies Express-East portion is expected to reach full service in June 2009.

Rockies Express also provides an outlet to the west for Rocky Mountain supplies, although for the most part this part of the pipeline will be "virtual," in that the project sponsors have leased capacity on the existing Overthrust Pipeline Company (owned by Questar Corporation). The extension, from Wamsutter, Wyoming, to the Opal Hub in Lincoln County, Wyoming, was authorized by FERC on April 19, 2007, and is already in service with up to 1.5 Bcf per day of capacity.

Also in the Central region, Jonah Gas Gathering Company, a joint venture of TEPPCO Partners and Enterprise Products Partners, in 2007 completed a $300-million project adding 160,000 horsepower of compression to the Jonah Gas Gathering System in the Jonah and Pinedale production fields in southwest Wyoming. The additional compression was part of a large pipeline looping project known as the "Phase V" expansion project, which increased capacity of the gathering system from 1.5 Bcf per day of natural gas to 2.4 Bcf per day. The expansion included 75 miles of 36-inch pipe and 12 miles of 24-inch pipe leading from the Jonah and Pinedale fields to processing plants and interstate pipelines near Opal, Wyoming.

Also during 2007, Questar Corp. completed its $108-million Southern System Expansion II project, bolstering westbound deliveries of Rocky Mountain natural gas to Goshen, Utah, where Questar Pipeline interconnects with the Kern River Gas Transmission Company system. Questar constructed approximately 60 miles of 24-inch pipeline and modified two existing compressor stations in Carbon and Uintah counties in Utah, providing the capability to transport up to an additional 175 MMcf per day of natural gas from various receipt points on Questar's southern pipeline system to Questar's Main Line.

Midwest Region



Two pipeline projects were completed in the Midwest region in 2007, accounting for just 460 MMcf per day of new capacity and 13 miles of added pipeline. This was the lowest annual increase in capacity in the region since at least 1998.

The larger project (in cost and added capacity) was a new pipeline lateral in the Chicago area constructed by an affiliate of Kinder Morgan Inc. Local utility Peoples Gas Light & Coke Company contracted for all 360 MMcf of daily capacity on the 28-mile Kinder Morgan Illinois Pipeline, which connects Beecher, Illinois, to the Chicago city limits near Burnham, Illinois. The project combined construction of a new pipeline and a long-term capacity lease on Natural Gas Pipeline Company of America (NGPL), a wholly-owned subsidiary of Kinder Morgan.

The second project in the Midwest was completed by Columbia Gas of Ohio, owned by NiSource, Inc. Columbia, which is a local distribution company, added 100 MMcf of daily capacity to a large distribution artery in Delaware County, Ohio, through the addition of compression and new pipeline mileage at a cost of $14 million.

Pipeline expansion in the Midwest region is expected to remain at a relatively low level during 2008. However, pipeline construction activity is expected to increase significantly in 2009 and 2010, particularly with the completion of the eastern portion of Rockies Express. Based on current plans, at least a portion of Rockies Express-East will be completed by January 2009, bringing an additional 1.8 Bcf per day of capacity into the Midwest to a terminus at Clarington Hub in Ohio (Table 3).

Significant capacity additions in the Midwest region will occur with expansions of NGPL and Rockies Express into the Chicago area. The two pipeline companies, both of which are owned at least partially by Kinder Morgan, will expand their respective systems and also construct a joint pipeline, expected to be completed in 2008. The system improvement will provide up to 750 MMcf per day of incremental capacity from production areas in the Rockies through the Midwest to Michigan. Supplies for this project likely would come from the Rockies producing fields. However, the viability of the proposed project will depend on growth in Rockies production, as well as competition from other pipeline companies that have proposed other outlets for Rockies production.

In 2008, Guardian Pipeline L.L.C., owner of a pipeline which entered operations in 2002, will provide service

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Table 3. Largest 20 Planned Natural Gas Pipeline Projects for 2008, 2009, and 2010, by Level of Added Capacity

Year Planned	State Begin	State End	Region End	Developer	Project Name	FERC Docket Number	Type of Project	Status (as of March 2008)	Miles	Additional Capacity (MMcf/d)[1]
2008	LA	LA	Southwest	Cheniere Creole Trail LLP	Sabine Pass LNG Line	CP07-426	Lateral	Completed	16	2,700
2008	TX	TX	Southwest	Freeport LNG Development LP	Brazoria Interconnector Gas Pipeline	Not applicable	Lateral	Completed	30	2,600
2008	CO	CO	Central	Questar Pipeline Co	White River Header Pipeline	PF08-3	Lateral	Applied (NEPA)	7	2,500
2008	TX	TX	Southwest	NGS Investments LLC	Tres Palacios Storage Lateral	CP07-90	Interconnection	Construction	42	2,500
2008	LA	LA	Southwest	Sempra Energy Inc	Cameron Interstate Pipeline	CP05-119	Lateral	Construction	36	2,350
2008	LA	LA	Southwest	Kinder Morgan Louisiana PL Co	Sabine Pass LNG Leg 1	CP06-449	New Pipeline	Construction	135	2,130
2008	TX	TX	Southwest	Freeport LNG Development LP	Freeport LNG Pipeline	CP03-75	Lateral	Completed	10	1,750
2008	TX	MS	Southeast	Gulf South Pipeline Co	Texas to Mississippi Expansion	CP06-446	Compression/New pipeline	Completed	243	1,700
2008	CO	MO	Central	Kinder Morgan Energy Partners	Rockies Express (REX-West)	CP06-354	New Pipeline	Completed	718	1,500
2008	LA	MS	Southeast	Southeast Supply Header LLC	Southeast Supply Header Pipeline	CP07-44	New Pipeline	Construction	270	1,400
2008	MS	MS	Southeast	Mississippi Hub LLC	Mississippi Hub Storage Lateral	CP07-04	Lateral	Construction	11	1,200
2008	LA	LA	Southwest	Port Barre Investments LLC	Bobcat Storage Lateral	CP06-66/67/68	Laterals	Construction	20	1,200
2008	TX	TX	Southwest	Enterprise Products Partners	Enterprise Sherman Extension	Not applicable	Extension	Construction	178	1,100
2008	MS	AL	Southeast	SGR Holding Corporation	Southern Pines Florida/Transco Line	CP02-229	New Pipeline	Construction	26	1,000
2008	MS	MS	Southeast	Gulf South Pipeline Co	Gulf Crossing Mississippi Loop	CP07-401	Looping/Compression	Applied	18	1,000
2008	MS	MS	Southeast	SGR Holding Corporation	Southern Pines Destin Line	CP02-229	New Pipeline	Construction	3	1,000
2008	CO	CO	Central	Colorado Interstate Gas Co	CIG High Plains Project	CP07-207	New line	Construction	164	900
2008	MD	VA	Northeast	Dominion Cove Point LNG PL Co	Cove Point PL 2008 Expansion	CP05-132	Looping/Compression	Construction	48	800
2008	PA	MD	Northeast	Dominion Transmission Inc	Pennsylvania Expansion	CP05-131	Looping/Extension	Construction	113	700
2008	TX	TX	Southwest	Enbridge Energy Pipeline Co	East Texas System Extension	Not applicable	Extension	Construction	190	700
2008	--	--	--	--	Others (76 projects)	--	--	--	2,129	16,689
Total									**4,407**	**47,419**
2009	MS	MS	Southeast	NGS Investments LLC	Leaf River Storage Headers	CP08-8	Lateral	Applied	44	2,500
2009	TX	TX	Southwest	Golden Pass LNG Pipeline Loop	Golden Pass Southern System	CP04-400	Lateral	Approved	33	2,500
2009	LA	LA	Southwest	Cheniere Creole Trail LLP	Creole Trail Pipeline	CP07-426	Lateral	Construction	117	2,000
2009	LA	LA	Southwest	Eagle Energy Partners	Eagle Hub Header	None yet	New Line	Planning	40	2,000
2009	TX	LA	Southwest	NGS Energy LLC	Gulf Coast Connector	Planning	New line	Announced	40	2,000
2009	MO	OH	Midwest	Kinder Morgan Energy Partners	Rockies Express (REX East) 1	CP07-208	New Pipeline	Applied	393	1,800
2009	OK	LA	Southwest	Gulf Crossing Pipeline Co LLC	Gulf Crossing Pipeline Project	CP07-398	New Pipeline	Applied	356	1,730
2009	LA	LA	Southwest	Spectra Energy Inc (MHP)	Egan Storage Lateral Loop	CP07-88	Looping	Applied	17	1,700
2009	MA	CT	Northeast	Algonquin Gas Trans Co	Algonquin East-to-West (EW2) Expansion	PF07-15	Looping/Compression	Applied (NEPA)	46	1,450
2009	OK	AL	Southeast	Midcontinent Express Pipeline	Midcontinent Express System Project	CP08-06	New Pipeline	Applied	504	1,400
2009	AR	MS	Southeast	Texas Gas Transmission Co	Texas Gas Fayetteville Lateral	CP07-417	New Pipeline	Applied	166	1,100
2009	TX	TX	Southwest	Energy Transfer Co	ET Texas Independence Pipeline	Not applicable	New Pipeline	Approved	160	1,100
2009	LA	LA	Southwest	Kinder Morgan Louisiana PL Co	Sabine Pass LNG Leg 2	CP06-449	Lateral	Approved	1	1,065
2009	TX	MS	Southeast	Enbridge Energy Pipeline Co	Texas-Mississippi Pipeline	None yet	New Pipeline	Announced	330	1,000
2009	TX	TX	Southwest	ENSTOR Energy	Houston Energy Center Header Line	CP07-390	New Pipeline	Approved	2	1,000
2009	MS	MS	Southeast	Texas Gas Transmission Co	Greenville Lateral	CP07-417	New Pipeline	Applied	96	768
2009	CO	CO	Central	EnCana Oil & Gas Co	Collbran Valley Pipeline	Not applicable	Lateral Gathering	Approved	26	650
2009	PA	WV	Northeast	Chestnut Ridge Storage LLC	Uniontown Lateral	CP08-36	Lateral	Applied	17	500
2009	MA	MA	Northeast	Excelerate Energy LLC	Northeast LNG Line Lateral	Coast guard	Lateral	Applied	12	500
2009	TX	MX	Mexico	Sonora Pipeline LLC	Burgos Hub Mission Line (US Portion)	CP07-74	New Border Crossing	Approved	16	500
2009	--	--	--	--	Others (47 projects)	--	--	--	1,278	7,199
Total									**3,696**	**34,462**
2010	GM	AL	Southeast	McMoran Exploration Inc	MPEH Pipeline Project	Not applicable	New Pipeline	Approved	97	1,600
2010	MD	PA	Northeast	AES Corp	AES Mid-Atlantic Express Project	CP07-62	Looping/Compression	Applied	88	1,500
2010	TX	TX	Southwest	4Gas Texas LLC	Vista del Sol LNG Line	CP04-405	Lateral	Approved	25	1,400
2010	MS	MS	Southeast	Spectra Energy Inc (MHP)	MHP SESH Copiah Storage Lateral	CP02-25	Lateral	Approved	13	1,300
2010	OR	OR	Western	Northern Star Natural Gas LLC	Bradwood Landing Pipeline	CP06-366	Lateral	Applied	34	1,300
2010	GA	GA	Southeast	Southern Natural Gas Co	SONAT Elba Express III	CP06-470	Extension	Approved	189	1,175
2010	WY	IA	Central	Kinder Morgan Energy Partners	REX/NGPL Phase 1	None yet	New Line	Proposed	175	1,000
2010	IA	IL	Midwest	Kinder Morgan Energy Partners	REX/NGPL Joint Project Phase 2	None yet	New Line	Proposed	240	1,000
2010	LA	LA	Southwest	Liberty Gas Storage LLC	Liberty Storage Pipeline Expansion	PF08-07	Lateral	Applied (NEPA)	5	1,000
2010	TX	TX	Southwest	Calhoun LNG Inc	Point Comfort LNG Line	CP05-380	Lateral	Approved	27	1,000
2010	FL	FL	Southeast	Calypso U.S. Pipeline LLC	Calypso Pipeline Project	CP01-409	New Pipeline	Approved	20	832
2010	LA	LA	Southwest	Stark Gas Storage LLC	Stark Storage Pipeline	CP05-08	Lateral	Construction	35	800
2010	OH	NY	Northeast	National Fuel Gas Supply Corp	NFGS West-to-East Project	None yet	New Pipeline	Announced	324	700
2010	AL	AL	Southeast	Transcontinental Gas P L Co	Transco Mobile Bay Lateral Expansion	None yet	Looping/Compression	Planning	0	700
2010	OH	PA	Northeast	Transcontinental Gas P L Co	Transco Rockies Connector	None yet	New Line	Planning	250	688
2010	PA	NY	Northeast	Transcontinental Gas P L Co	Transco Northeast Connector Expansion	None yet	Looping/Compression	Planning	0	668
2010	ME	ME	Northeast	Downeast LNG LLC	Downeast LNG Lateral	CP07-52/55	Lateral	Applied	30	625
2010	CN	CT	Northeast	Iroquois Pipeline Co	Iroquois MetroExpress Project	None yet	Looping/Compression	Planning	0	500
2010	PA	NY	Northeast	NiSource Gas Transmission & St	New Penn Project	None yet	New Pipeline	Announced	82	500
2010	GA	GA	Southeast	Southern Natural Gas Co	SONAT SSEIII Phase 1	PF08-13	Looping/Replacement	Applied (NEPA)	42	370
2010	--	--	--	--	Others (15 projects)	--	--	--	279	2,612
Total									**1,955**	**21,270**
3-Year Total					**198 Projects**				**10,057**	**103,151**

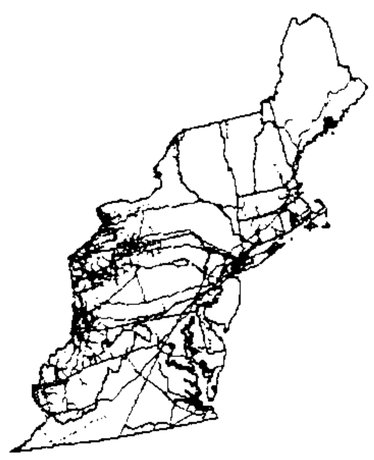
[1] Companies report capacity levels are in Btus, decatherms, or volumetric units. In this table and report, reported capacity figures are presented as volumetric (MMcf/d = million cubic feet per day) assuming a conversion factor of 1 MMcf/d = 1 thousand decatherms per day = 1 billion btus per day.

MMcf/d = million cubic feet per day. GM = Gulf of Mexico.

Source: Energy Information Administration, GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database, as of May 31, 2008.

to Green Bay, Wisconsin, for the first time through completion of a 106-mile extension from Guardian's current terminus near Ionia, Wisconsin. The expansion would add about 550 MMcf per day of capacity to the Green Bay area at a cost of between $200 and $250 million.

Northeast Region



Nine pipeline expansions were completed in the Northeast region in 2007, representing 1.7 Bcf per day of additional capacity and 134 miles of new pipeline. The added capacity during 2007 was greater than that in each of the previous 2 years for the region. Although pipeline construction activity has been relatively limited in recent years compared with other regions, the increased activity in 2007 likely will be followed up by growing construction activity through 2010 and beyond, even if some planned projects are not completed (Table 4).

The largest project completed in the Northeast during 2007 in terms of investment cost was an expansion of Algonquin Gas Transmission to transport supplies related to new imports of LNG. Algonquin placed into service its 16-mile link to the Northeast Gateway LNG port offshore Massachusetts. This $180-million, 32-inch lateral was built to transport up to 800 MMcf per day of regasified supplies to customers in the New England market from the new port, which is owned by Excelerate Energy.

Notwithstanding this LNG-related project, pipeline expansions in the Northeast region in 2007 served primarily to improve service within the region itself, as building long-haul capacity into the region has proved difficult in the past few years in part because of opposition from local communities and environmental organizations. While all of the projects completed in 2007 were related to interstate pipelines, they did not extend beyond the Northeast region.

Transcontinental Gas Pipeline Corp. (Transco) completed a $162-million system expansion to improve access to Long Island, New York, customers. The "Leidy to Long Island" project involved construction of 15 miles of 20-inch pipeline and related improvements that expanded Transco's pipeline system by 100 MMcf per day. The project, first proposed 3 years ago, is based on a 20-year binding precedent agreement executed by Transco and KeySpan.

Two major market-area expansions were completed by Tennessee Gas Pipeline Company (TGP) and Texas Eastern Gas Transmission Corp. TGP placed its "Northeast ConneXion – New England" expansion project into service, increasing compression at six existing stations and adding one new compressor station, in order to provide an additional 136 MMcf per day of capacity in the New England market area. The Texas Eastern Incremental Market Expansion II Project (TIME II) required 6.4 miles of 36-inch pipe in Somerset and Bedford counties, Pennsylvania; 4.9 miles of 36-inch pipeline replacement in Franklin County, Pennsylvania; 10.4 miles of 36-inch pipeline replacement in Bucks County, Pennsylvania; and a new 16,000 horsepower electric compression unit and compressor station in Heidlersburg, Pennsylvania.

The level of pipeline construction in the Northeast is likely to increase in the next few years as long-planned system expansions take place and flows from new LNG facilities and existing facility expansions commence. Thirty-two projects, totaling as much as 8.5 Bcf per day of new capacity, have been announced, submitted for regulatory review, or approved for development during 2008 and 2009. However, it is far from certain how many of these projects will be completed, especially those that have yet to be filed with the FERC.

The Millennium Pipeline, a 182-mile, 30-inch line across southern New York, is finally under construction after many years of planning and regulatory review. The final, revised project will serve markets along its route through the lower Hudson Valley, as well as provide service to New York City markets through its pipeline interconnections. Millennium, which is owned by NiSource, Inc., KeySpan Corporation, and DTE Energy Company, is expected to be in service in November 2008 and transport up to 525 MMcf per day.

Besides the Northeast Gateway pipeline, the Northeast will be the destination of new LNG volumes from the expansion of the Cove Point LNG terminal, owned by Dominion Corp. Dominion has started construction of a 48-mile pipeline that would provide deliveries of regasified LNG from the expanding LNG facility located in Southern Maryland on the Chesapeake Bay. The 37-inch Cove Point Pipeline, expected to be completed in 2008, will extend 48 miles west from the marine terminal to connections with interstate pipelines in Virginia.

Also under consideration are numerous proposals to expand existing infrastructure to provide an outlet for increased supplies from the Rockies, once the Rockies Express is complete. National Fuel Gas Company has proposed a 324-mile pipeline to deliver Rockies gas from Ohio to Corning, New York, while Texas Eastern Transmission Company's Northern Bridge expansion would provide incremental capacity from Ohio to Oakford in the Philadelphia-Camden metropolitan area. Another proposed outlet for increased supplies from the Rockies is Williams Companies' proposed Rockies Connector Pipeline, which would extend approximately 250 miles, connecting its Transco Station 195 in York County, Pennsylvania, to the eastern terminus of the Rockies Express in Ohio. The owners of the Rockies Express Pipeline have also proposed extending the pipeline further east to Linden, New Jersey, by 2011.

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Table 4. Recent and Proposed Regional Natural Gas Pipeline Additions and Expansions, 2006 - 2010

Region (within or into)	Completed in 2006			Completed in 2007			Scheduled/Proposed for 2008[1]			Proposed for 2009[1]			Proposed for 2010[1]		
	Added Capacity (MMcf/d)[2]	Estimated Cost (Million Dollars)	Miles	Added Capacity (MMcf/d)[2]	Estimated Cost (Million Dollars)	Miles	Added Capacity (MMcf/d)[2]	Estimated Cost (Million Dollars)	Miles	Added Capacity (MMcf/d)[2]	Estimated Cost (Million Dollars)	Miles	Added Capacity (MMcf/d)[2]	Estimated Cost (Million Dollars)	Miles
Central	3,873	823	550	4,280	1,607	619	6,833	2,233	1,200	1,472	309	319	1,725	1,030	279
Midwest	478	127	56	460	27	13	848	354	160	2,151	2,693	694	1,000	1,200	240
Northeast	1,082	166	116	1,749	784	134	4,415	2,001	478	4,194	752	151	6,236	2,241	888
Southeast	430	42	32	430	304	184	10,295	3,558	924	7,480	2,622	1,195	6,464	716	397
Southwest	6,792	1,124	822	6,971	1,471	700	24,316	3,800	1,380	17,590	3,140	1,222	4,200	199	92
Western	50	11	6	723	39	13	651	691	264	90	24	46	1,645	200	59
Mexico/Canada	0	0	0	245	70	0	60	1	0	1,485	82	69	0	0	0
U.S. Total	**12,705**	**2,293**	**1,582**	**14,859**	**4,302**	**1,663**	**47,419**	**12,638**	**4,407**	**34,462**	**9,622**	**3,696**	**21,270**	**5,586**	**1,955**

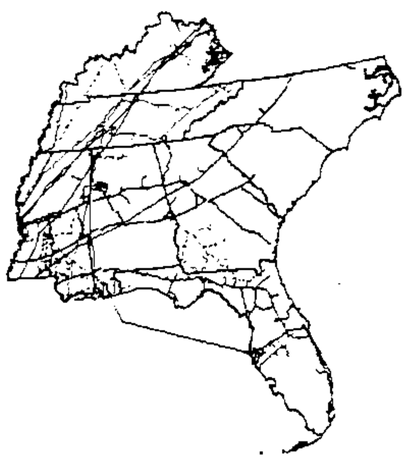
[1] Only projects that were approved or under construction prior to May 1, 2008, and which have a proposed completion date in 2008 are included under "Scheduled for 2008." All other projects that have a proposed completion date in 2008 through 2010, other than those canceled or on-hold, are included under 2009 or 2010.

[2] When announcing the design capacity for a proposed project or expansion, a pipeline company may provide either a volumetric (per cubic feet) or energy content (btus/therms) value. In this table, reported capacity figures are presented as volumetric (MMcf/d = million cubic feet per day) assuming a conversion factor of 1 MMcf/d = 1 thousand decatherms per day = 1 billion btus per day.

Notes: Excludes projects on hold as of December 2007. In the table, a project that crosses interregional boundaries is included in the region in which it terminates. Offshore Gulf of Mexico projects are included in the Southwest region. Totals may not agree with those in Tables 1 or 3 because of independent rounding.

Source: Energy Information Administration, GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database, as of May 31, 2008.

Southeast



Two natural gas pipeline expansion projects were completed in the Southeast in 2007, bringing an additional 430 MMcf per day of capacity to the region's pipeline infrastructure. With the exception of pipeline construction activity during 2006, the 2007 level of capacity additions was the lowest level of yearly additions at least since 1998. However, the lull in pipeline construction activity in the region will likely prove temporary with construction activity related to several proposed conventional storage sites and added import capacity in the form of LNG facilities proposed for construction.

The larger of the capacity additions in the Southeast in 2007 was related to the ongoing expansion of the El Paso Corp.-owned Southern LNG terminal, located on Elba Island, Georgia. Southern Natural Gas Company (SNG), which is the interstate pipeline network that connects to the LNG terminal and also is owned by El Paso Corp., completed a first phase of a new pipeline from the terminal to Florida. In 2007, the new 167-mile Cypress Pipeline extended the SNG system into southern Georgia and northern Florida, interconnecting with the Florida Gas Transmission system near Jacksonville, Florida. At a cost of $240 million, a project was completed adding 335 MMcf per day of capacity from the Southern LNG terminal to Cypress.

Construction activities for Cypress Pipeline will continue between 2008 and 2010 in two additional phases. Engineering and procurement activities are currently underway for Phase II of the project, when compression facilities will be installed to add 116 MMcf per day of capacity to the pipeline starting in 2008. The third phase is intended to boost the new pipeline's capacity through the installation of additional compressor units, resulting in over 100 MMcf per day of incremental transportation capability.

The growing natural gas market in Florida, which includes new and planned natural-gas-fired electric power generation plants, has now required seven expansions of the Florida Gas Transmission Company (FGT) system. The Phase VII expansion, completed in 2007, required the construction of 17 miles of 36-inch pipeline in several segments along an existing right-of-way, as well as installation of 9,800 horsepower of compression.

Pipeline construction activities continue related to proposed development of LNG facilities for direct delivery into Florida. Earlier this decade, these pipeline proposals chiefly consisted of plans to link LNG terminals in the Bahamas to the Florida market. While the FERC-jurisdictional portions of these projects have been approved, little progress has been made by project sponsors in getting Bahamian authorities to permit the building of the LNG facilities that would feed the proposed natural gas pipelines.

As a result of delays in the Bahamas and for other reasons, Suez Energy North America Inc. has revised its LNG project design and plans to receive LNG supplies from a proposed LNG offloading terminal to be located offshore southern Florida. Suez-owned Calypso LNG LLC intends develop a submerged buoy system located approximately 10 miles off the southeastern coast of Florida. The system is considered a "Deep Water Port" (DWP). The Calypso DWP will serve as an offshore delivery point for connection to specially built LNG tankers that will vaporize stored LNG and send it through the buoy system into a pipeline. The Calypso Pipeline would make landfall in Broward County, Florida, and come onshore in Port Everglades, travel approximately 5 miles along an existing industrial corridor, and ultimately connect to the existing FGT pipeline system. Suez plans to have all facilities operational by 2009.

In the Southeast region, several projects are either under construction or proposed to regulatory authorities to bring supplies from the Southwest. Although this is a traditional

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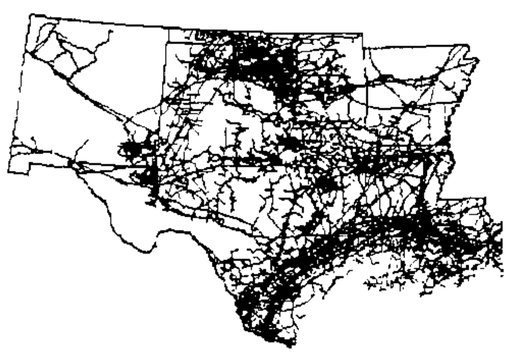
pipeline corridor, the expansions relate more to supplies from new unconventional resource development in northeastern Texas (Barnett Shale) and parts of Oklahoma and Arkansas (Fayetteville Shale). For example, Texas Gas Transmission (TGT), which is a 5,900-mile pipeline owned by Boardwalk Pipeline Partners, intends to increase the capacity of its proposed Fayetteville and Greenville laterals to 1.2 Bcf per day from the current capacity of 800 MMcf per day. The lateral projects would provide takeaway capacity for natural gas from the Fayetteville Shale area in north-central Arkansas. The Fayetteville lateral will be a 166-mile, 36-inch pipeline transporting up to 1.1 Bcf per day. The proposed lateral would traverse several counties in Arkansas and interconnect with TGT in Coahoma County, Mississippi. The Greenville lateral will be a 96-mile pipeline with a capacity of 768 MMcf per day, extending from TGT's mainline near Greenville, Mississippi, east to Kosciusko, Mississippi.

Additionally, significant pipeline capacity will be added in the region in 2008 in conjunction with the completion of an underground storage complex under construction in Mississippi. Southern Pines Energy Center, owned by SG Resources Mississippi, L.L.C. and located in Greene County, Mississippi, will have 29 miles of dual 24-inch bidirectional natural gas pipelines and associated facilities that will connect with the FGT system and Transco. Mississippi Hub LLC is also nearing completion of a large new underground storage complex (eventually able to hold 30 Bcf) and related pipelines near Jackson, Mississippi. Related to this development, the owners of the complex are constructing a short large pipeline with a capacity of 1.2 Bcf per day.

Southwest and Gulf of Mexico

In the Southwest, production increases, particularly in the Barnett Shale play of the Fort Worth Basin and other areas of northeast Texas, have created greater demand for takeaway capacity and more pipeline interconnections. In 2007, 21 natural gas pipeline projects were completed in the region, which is home to the most natural gas pipeline mileage in the United States and usually accounts for most of the added capacity during any one year. Nonetheless, capacity additions of 7.0 Bcf per day were the highest yearly increase since at least 1998.



In 2007, approximately 700 miles of pipelines were added to the region's infrastructure at a cost of about $1.5 billion. Of the 21 pipeline projects constructed in the Southwest, 10 were related to new pipeline builds or expansions in the northeast Texas area or to new flows from the Barnett Shale and accounted for approximately 52 percent (361 miles) of the added pipeline mileage in the region. These infrastructure improvements in northeast Texas also added 4.0 Bcf per day of capacity, which accounted for 57 percent of the added capacity in the region.

Completed projects in 2007 included a number of enhancements to the interstate grid and new connections between market centers. The most significant projects took place on intrastate systems owned by Centerpoint Energy Gas Transmission Company and Energy Transfer Partners.

Centerpoint Energy Gas Transmission constructed a new 172-mile pipeline from northeastern Texas to the Perryville Hub in northern Louisiana. In east Texas, it connects to the Carthage Hub, a market center with interconnections of intrastate systems developed by such companies as Atmos Energy, Inc., Crosstex Energy Services, Energy Transfer Partners LP, and Enbridge Pipelines LP. The Perryville Hub connects with nine interstate pipelines and two intrastate pipelines. Phase I of the 42-inch pipeline has a capacity of nearly 425 MMcf per day, but Centerpoint intends to expand its capacity to 1.5 Bcf per day by the end of 2008. The total cost of the project, including the expansion, is expected to be approximately $550 million.

Energy Transfer installed 135 miles of 42-inch natural gas pipeline in northeast Texas, connecting to the company's existing ET Fuel System in Freestone County, the Bethel Storage Facility, and the company's existing 30-inch Texoma Pipeline in Rusk County. The pipeline provides Energy Transfer with additional takeaway capacity to transport gas from the Barnett Shale and Bossier Sands producing areas. This completed a multiphase project that resulted in a single pipeline providing transportation capacity of 1 Bcf per day out of the Barnett Shale producing region to the Carthage Hub in East Texas.

Dallas-based Crosstex completed construction of its $20 million project to add 125 MMcf per day of capacity to its North Texas Pipeline, chiefly through additional compression. This project was the final stage of a multiyear system upgrade that also included the $90 million construction of more than 140 miles of 24-inch pipeline in six North Texas counties. The pipeline begins at a point just north of Fort Worth and gathers and transports natural gas from the Barnett Shale to interconnections with multiple interstate and intrastate pipelines. Currently, the line has the capacity to deliver 375 MMcf per day.

Already in 2008, Gulf South Pipeline Company has completed a new natural gas pipeline with a capacity of 1.7 Bcf per day, also from the Carthage area to the Perryville Hub in northeast Louisiana. Along the route, there are multiple interconnections with other interstate pipelines such as ANR Pipeline Company and Tennessee Gas Pipeline Company. The project also includes an extension of this new natural gas pipeline 86 miles eastward to Jackson, Mississippi, where it will interconnect with the Transcontinental Gas Pipe Line system, allowing its shippers

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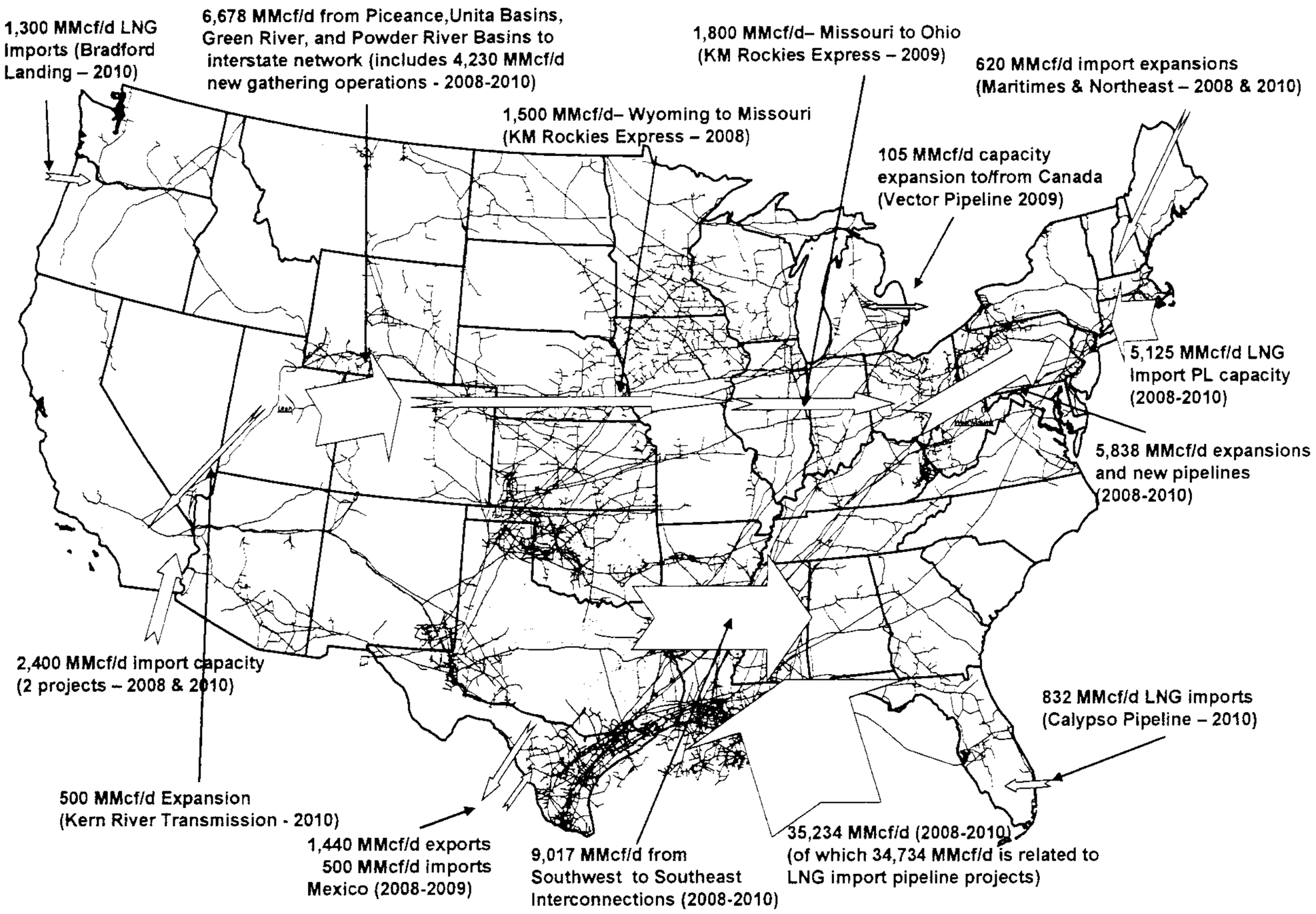
Figure 5. Major Natural Gas Pipeline Corridor Expansions, 2008-2010



MMcf/d = million cubic feet per day. LNG = liquefied natural gas.
Note: The Energy Information Administration has determined that publication of this figure does not raise security concerns, based on the application of Federal Geographic Data Committee's *Guidelines for Providing Appropriate Access to Geospatial Data in Response to Security Concerns*.
Source: Energy Information Administration, GasTran Gas Transportation Information System, Natural Gas Pipeline Projects Database.

the opportunity to access Northeast and Southeast markets as well. Gulf South's Southeast Expansion to Mississippi includes 112 miles of new 42-inch pipeline with a capacity of 1.2 Bcf per day of capacity. Lastly, Gulf South has proposed the construction of approximately 357 miles of 42-inch pipeline that will originate near Sherman, Texas and proceed to the Perryville, Louisiana area.

In addition to the Gulf South Pipeline projects, Kinder Morgan Energy Partners LP in 2008 plans to build a new 38-mile "Carthage Pipeline" that would provide up to 700 MMcf per day of capacity from the producing area around Carthage, Texas, to northwestern Louisiana. NGPL, the subsidiary of Kinder Morgan, also is planning to expand its Louisiana and Gulf Coast systems (by 200 MMcf per day in 2008) to accommodate expanding production in the region.

Capacity from the offshore Gulf of Mexico expanded in 2007. During the year, three projects involving the installation of about 28 miles of new pipeline were completed, increasing capacity from the offshore by a combined 1.6 Bcf per day. Since 1998, more than 1,500 miles of gathering and offshore-to-onshore transportation pipelines have been built in the Gulf of Mexico, an investment of at least $2.4 billion that added 14.9 Bcf per day of new pipeline capacity in the region. The largest pipeline addition in the Gulf was the Tennessee Gas Pipeline "Deepwater Link" connection, which required very little in terms of pipeline mileage but nonetheless added 1 Bcf per day of deliverability to the Independence Hub, which is a major new deepwater platform in West Delta Block 68 of the Gulf of Mexico. All production through the new Independence Hub is transported onshore by the Independence Trails Offshore Line, which is owned by Houston-based Enterprise Products Partners LP. It is a 134-mile, 24-inch pipeline that was constructed in 2006.

Capacity additions are scheduled during the next several years in the Southwest region as a result of increased investment in LNG infrastructure (Figure 5). By the close of 2009, four new LNG import facilities are expected to have the capacity to deliver as much as 7.6 Bcf per day of vaporized LNG into the existing natural gas pipeline network in the region, most of it into the interstate network. Unless

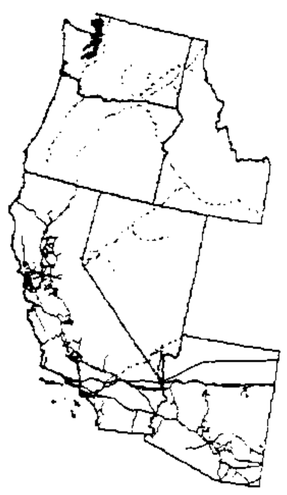
natural gas pipeline capacity in the vicinity of these new LNG facilities is significantly underutilized, interstate natural gas pipelines in the area will have to seek approval of complementary expansion proposals as additional LNG sites near completion status and imports increase.

To date announced projects relating to LNG capacity additions in the region involve a combined 463 miles of new natural gas header (lateral) pipelines. Related to the Sabine Pass LNG terminal is the construction of the $572-million Creole Trail Pipeline, with Cheniere as the owner and operator. This new 2.7-Bcf-per-day pipeline will connect the Sabine Pass LNG and Creole Trail LNG facilities, both of which are owned by Cheniere, and then connect to multiple interstate pipelines in southern Louisiana. The total length of the proposed line is just 16 miles, but added capacity to the region would total 2.7 Bcf per day. Freeport LNG, in early 2008 completed a 10-mile pipeline associated with its sendout of regasified LNG. With a capacity of 1.75 Bcf per day, the Freeport LNG Pipeline transports natural gas to Stratton Ridge, Texas, where the pipeline interconnects with several intrastate systems.

Another one of these header projects is associated with the Golden Pass LNG facility, to be located near Port Arthur, Texas. The header system consists of a 2.5-Bcf-per-day lateral comprising 33 miles of natural gas pipeline connecting the Golden Pass facility with the Sabine Pipeline and Transcontinental Gas Pipeline interstate systems and the ExxonMobil refinery in nearby Beaumont, Texas. ExxonMobil and Qatargas are partners in the project.

West

Very little capacity was added to West region infrastructure in 2007. Only three natural gas pipeline projects, costing a total of $39 million and amounting to only 723 MMcf per day of added capacity, were completed in the region during the year. The largest capacity addition into the region during the year was an upgrade to the North Baja Pipeline in southern California and Mexico. Flows on the North Baja Pipeline, originally constructed in 2002 to transport natural gas from California into Mexico, were reversed. The motivation for the project comes from the construction of the Costal Azul LNG terminal in Baja California, which will provide supplies to meet incremental demand in Mexico and possibly imports to the United States.



In the first phase of the pipeline project, Sempra Energy, owner of both the Costa Azul LNG terminal and a portion of the North Baja Pipeline, modified North Baja's Ehrenberg Compressor Station and the Ogilby Meter Station to allow for gas flow in the opposite direction (south to north) from their current configuration. Sempra Energy also has plans to construct a new 42-inch pipeline crossing under the Colorado River, eventually bringing total capacity to more than 1.2 Bcf per day from the current capacity of 500 MMcf per day.

The lack of significant capacity additions for 2007 was the third consecutive year in which there was little activity in the Western region. Although pipeline construction activity in the region will likely continue to be limited in the next few years, several significant projects are underway. A host of other LNG-related projects are also still active in the West region, most of which would involve construction of new pipeline in some form. However, most of the project timelines have slipped considerably to beyond 2010. For example, Crystal Clearwater Port intends to build a deepwater port offshore California to receive LNG, along with a new 12.6-mile, 32-inch pipeline to bring the supplies onshore. While these plans are moving forward, the expected completion date for the Clearwater Port has been pushed back to 2011 from an original target completion year of 2008 and the facility has not yet received government approvals.

Import/Export Pipeline Capacity

For the third consecutive year, no natural gas pipeline import capacity was added between the United States and Canada or Mexico during 2007. After significant capacity increases in the 1990s and early this decade, much of the pipeline grid in North America is well integrated. Large projects between Canada and the United States in the past 10 years included new pipelines such as Alliance Pipeline from the Western Canadian Sedimentary Basin, the Maritimes and Northeast Pipeline from eastern Canada, and expansions of existing pipelines such as Northern Border Pipeline. Trade with Mexico has also increased substantially with the construction of the North Baja Pipeline, as well as extensions of Tennessee Gas Pipeline and Kinder Morgan Pipeline at, respectively, Rio Bravo, Texas, and Roma, Texas.

While construction of pipelines to import natural gas from Canada has virtually halted, one pipeline project was completed in 2007 to increase U.S. exports to Canada. In the Midwest region, the Vector Pipeline Company completed construction of two additional compressor stations to expand the pipeline system's capacity by approximately 245 MMcf per day. Vector, which is a 348-mile pipeline transporting natural gas between Chicago, Illinois, and Ontario, Canada, will have greater flexibility and system reliability for customers seeking natural gas transportation services after the expansion, according to company officials. The additional compression is designed to increase Vector's mainline long-haul gas delivery capacity to the international boundary to 1.2 Bcf per day in the summer and to 1.5 Bcf per

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day in the winter.

By the end of 2008, the Maritimes and Northeast Pipeline Company (M&NE) is expected to complete an expansion of its system between New Brunswick, Canada, and northern Massachusetts. The capacity addition of about 420 MMcf per day coincides with the expected 2008 completion of an LNG import facility currently under construction in New Brunswick, Canada (Canaport LNG). M&NE anticipates completing new compressor stations in Woodchopping Ridge, Westbrook, and Eliot, Maine. Total capacity of the line will be about 800 MMcf per day when the expansion is complete, with the vast majority of the capacity held by Repsol YPF, which is expected to be the LNG supplier to the Canaport facility.

Import capacity into the Northeast region also is projected to increase with expansions of the Iroquois Gas Transmission and Empire Gas Pipeline systems, which currently have a combined total of 1.7 Bcf per day of natural gas import capacity through Ontario, Canada. Iroquois will add 100 MMcf per day of capacity as part of its MarketAccess project, and Empire will increase its natural gas pipeline import capacity from 525 MMcf per day to 775 MMcf per day in order to provide needed deliverability to the Millennium Pipeline project. Both projects are scheduled for completion in 2008.

Between 2008 and 2010, the pace of creating additional natural gas pipeline export capacity could once again increase with several crossborder projects, including three expansions and three new crossings. Along the border between the United States and Mexico, two new pipeline/border crossing projects have been proposed, with completion dates of 2008 or later. The Tidelands Oil and Gas Company has proposed two new natural gas pipelines, each with a capacity of 500 MMcf per day. The Progresso and Mission lines, each partly in Texas and partly in Mexico, would link with a planned (Terranova Oriente) pipeline within Mexico. The U.S. portion of this border project would link to a natural gas processing plant and several natural gas pipeline systems located in south Texas.

Observations and Outlook

Pipeline infrastructure expansion activity again appears to be on an upswing. Natural gas pipeline capacity added during 2007 (14.9 Bcf per day) was substantially higher than the additions of prior years going back at least to 1998. Moreover, the current inventory of project proposals indicates potential acceleration in pipeline construction over the next several years.

As much as 103 Bcf per day of pipeline capacity would be added to the national network between 2008 and 2010 if all current proposals were completed as designed and as scheduled, although this is unlikely in part because mainly of the proposals target similar markets. Overall, about 200 natural gas pipeline projects have been proposed for development between 2008 and 2010 in the United States (as of April 2008). These projects account for more than 10,100 miles of potential new natural gas pipeline. To date, 41 projects have been approved by regulating authorities and have begun, or are permitted to begin, construction, with 4 of the projects scheduled for early 2008 already completed. While 13 projects are still only in the planning, or post-open-season stage, 46 have been submitted to various regulatory authorities for review.

The outlook for new additions to the U.S. pipeline grid appears positive. The development of a number of proposed new LNG import facilities along the coastline of the United States, as well as some in Canada and Mexico, if realized, likely will continue to spark new pipeline proposals. Each of these facilities requires new natural gas pipeline laterals to transport vaporized LNG to interconnections with existing interstate and intrastate natural gas pipelines. A substantial amount of pipeline capacity additions over the next 3 years will also come from the intense development activity in the Rockies and the northeast Texas producing areas.

In the Unita/Piceance Basin of western Colorado/eastern Utah and the Green River and Powder River Basins of Wyoming, for instance, more than 6.9 Bcf per day of new natural gas pipeline capacity has been proposed that would increase natural gas pipeline exit capacity from the region between 2008 and 2010. Additionally, in the northeast Texas area, particularly the Barnett Shale and Bossier Formations of the Fort Worth Basin, increasing production and the discovery of additional proved natural gas reserves have resulted in numerous proposals for development over the next several years. Most of the latter capacity will be directed toward interconnections with the interstate natural gas pipeline network in Louisiana and Mississippi that serves the Midwest, Northeast, and Southeast regional markets.

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3/01/2008

The Marketable Condition Rule

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The Regulation

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- Promulgated originally in 1942, requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment:
- The lessee must place gas in marketable condition . . . at no cost to the Federal Government. 30 C.F.R. § 206.152(i) (2007)

Major Principles From MCR Cases

- Lessees must compress, gather, and dehydrate gas at no cost to the lessor
  - *The Texas Co.* - costs of gathering and compression were not deductible in determining the royalty value of the gas because "[t]he lessee has not shown that the gas can be marketed at the pressure with which it comes from the wells"
  - *California Co. v. Udall* - costs of gathering, compression, and dehydration were necessary to put the production into marketable condition because there was "no evidence of a market for the gas in the condition it comes from the wells. The only market, as far as this record shows, was for this gas at certain pressure and certain minimum water and hydrocarbon content"

Major Principles From MCR Cases

- Lessees must remove sulphur (sweeten) and carbon dioxide (CO_2) at no cost to the lessor
  - *Apache Corp.* – MMS's disallowance of a price reduction for sweetening in determining royalty value was proper
  - *Texaco, Inc. v. Quarterman* - upheld MMS order requiring Texaco to increase the gross proceeds by the amount the sales price was reduced by a per Mcf fee the purchaser charged to remove hydrogen sulfide
  - *Amoco Prod. Co. v. Watson/BP America Prod. Co. v. Burton* - the Assistant Secretary properly required the lessees to remove CO_2 at no cost to the lessor, even though the CO_2 removal took place a considerable distance downstream from the leases

(B)(5)
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Major Principles From MCR Cases

- The fact that a marketable condition cost also may be part of processing does not make it a deductible processing cost
  - *Shoshone & Arapaho Tribes v. Hodel* - upheld MMS's denial of a deduction for the costs of compressors located at the inlet of a gas processing plant. Even though the compressors increased gas flow pressure within the plant (which was a processing function), they also "increase the gas flow pressure to the level necessary to pass through the pipeline and ultimately to the purchaser of the gas"
  - Thus, you must allocate the compressor costs between marketable condition and processing. For example, assume the compressor at the plant inlet boosts pressure to 1500 psi and the pipeline pressure requirement is 1200 psi. In that case, 80% (1200psi/1500psi) of the compression costs would be nondeductible costs to place the production into marketable condition

Major Principles From MCR Cases

- There is no "geographic limitation" to the marketable condition rule, except for gathering, which ends at the BLM or MMS OMM approved royalty measurement point. Thus, there is no bright-line geographic limit to the marketable condition rule
  - *Amoco/BP* - the government may apply the marketable condition rule as far downstream as costs are incurred to place production into marketable condition
  - *Devon* - there are numerous decisions where, with respect to natural gas, DOI uniformly denied a transportation deduction based upon the geographic location of the natural gas

Major Principles From MCR Cases

- Because one must look to the market into which the gas is sold, one must look at the contracts that are "typical" for gas sold to that market
  - *Amoco/BP* - the regulations do not require MMS to define typical sales contracts – and thus marketable condition – as relating to transactions at the leasehold or immediately nearby
  - *Devon* – rejected Devon's argument that MMS did not look at contracts "typical for the field or area" because it only looked at Devon's contracts for the particular gas sold. Like the lessees in *Amoco/BP*, Devon asserted that MMS defines marketable condition as meaning gas conditioned for the market it serves. That is true because the "typical" contracts for the area in *Devon* were for treated gas, *i.e.* the market was for treated gas. In *Devon*, like *California Co.*, "there is no evidence of a market for the gas in the condition it comes from the wells. The only market this record shows was for this gas at certain pressure and certain minimum water and hydrocarbon content"

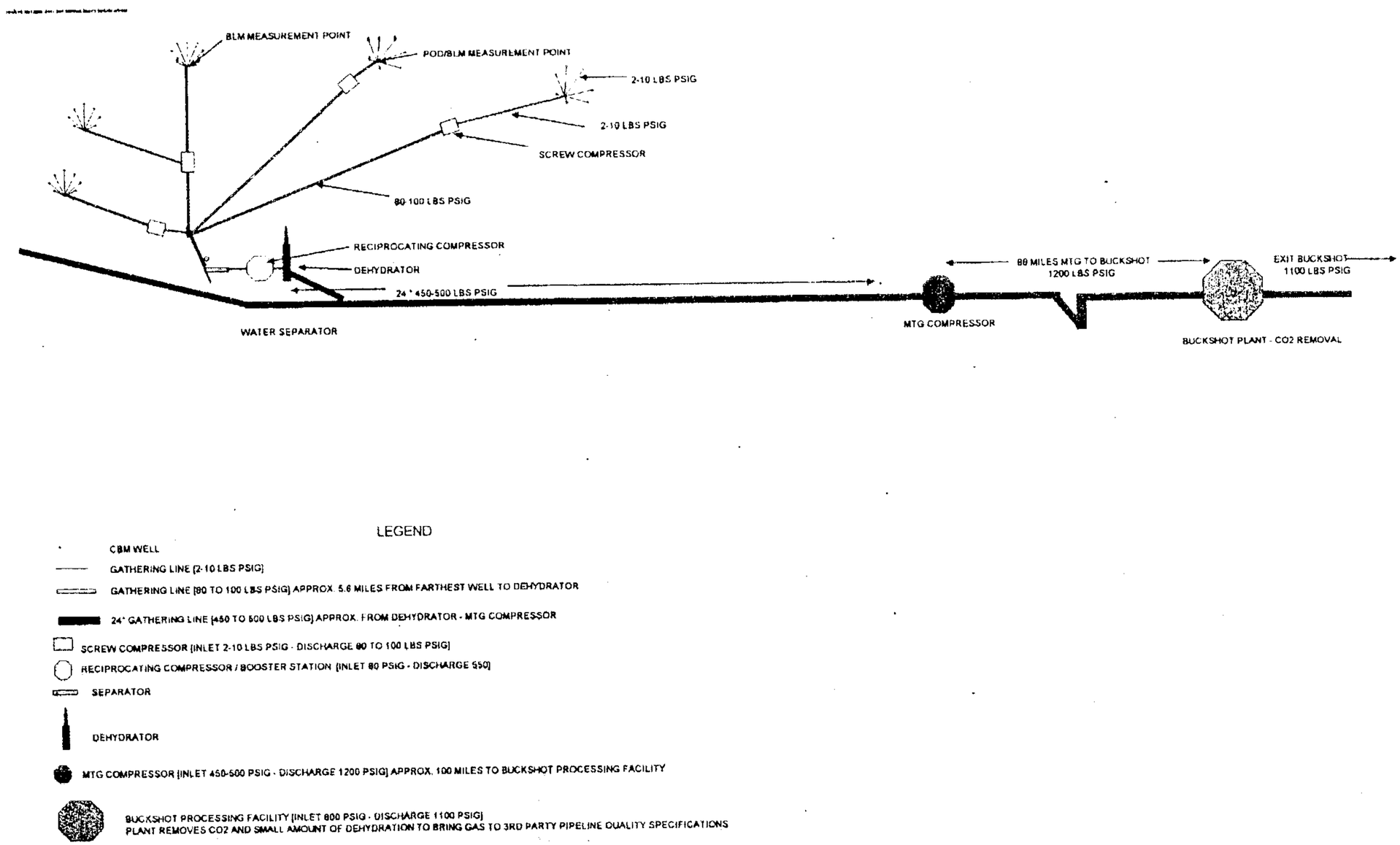
Major Principles From MCR Cases

- A lessee cannot shift the location of where gas is marketable by having another entity perform the processes necessary to place production into marketable condition

(B)(7)(e)

Bailey D. Gothard v. US – mere fact a purchaser was willing to buy gas at discounted price for its costs to place gas into marketable condition does not mean the gas was marketable at that point. "Any other result would elevate form over substance, and create a huge loophole whereby federal lessees could reduce their royalty obligations by shifting the costs of gathering and compression to buyers in a producer-created market, avoiding the marketability requirements of the "real" established market"

Major Principles From MCR Cases



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Major Principles From MCR Cases

- Per *Xeno, Inc.*, gas may be in marketable condition at the wellhead if:
  - 1 – There is a market at the wellhead evidenced by competing offers from multiple purchasers;
  - 2 – The sales price is the same as that for gas that is compressed; and
  - 3 – The pressure of the gas at the wellhead is adequate to gain access to the pipeline market

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Xeno

→ More detail

Keep Whole

Major Principles From MCR Cases

Sold?

Sulfur

- Where gas is processed for the removal of acid gases, commonly referred to as "sweetening," no processing cost deduction shall be allowed for such costs unless the acid gases are further processed into a gas plant product. In such event, the lessee shall be eligible for a processing allowance as determined in accordance with this subpart. However, MMS will not grant any processing allowance for processing lease production which is not royalty bearing. 30 C.F.R. § 206.158(d)(1)
  - *Mobil Exploration & Producing U.S. Inc. v Norton* - ExxonMobil's gas treatment process was nothing more than a "sweetening" process that is similar to other treatment processes in the industry used to place gas into marketable condition
  - For example, in *Amoco/BP*, movement of CO_2 to a treatment plant was to facilitate treatment to remove the CO_2 a non-deductible cost of putting production into marketable condition. Had the lessee captured the CO_2 and sold it after removal, the removal process would have qualified as processing, and the lessee could have taken a processing allowance

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Wed Feb 27 06:37:36 MST 2008

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The Definition

The regulations define marketable condition as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151.

Federal Gas Valuation

1ST TIME CLASS

Preamble discussion

John L. Price

History

- Effective March 1, 1988, MMS modified its Federal gas valuation regulations
  - First change since 1942 for onshore Federal leases
  - First significant change since 1954 for OCS leases

1938 – NG Act – Interstate

1978 – NGPA – INTRASTATE

Significant Changes Since 1988

- 1991 ARMS POP contract rule change → shifted processed GAS to NON processed
- 1996 Modification for forms filing → FEDGAS NO FORMS PROC TRAN
- 1997 Modification to specify costs allowable as a result of FERC Order 636 → BREAKS UP INTERSTATE PIPE
- 2005 Modification for arm's-length contract definition, rate of return for transportation allowance, and corrections due to IPAA v. DeWitt → LIST OF deductible & (NON) SERVICES

FERC Series
436 - 84
636 - 92

636 BEGAN
SERVICES
MENU
CAPACITY
FIRM
etc.

READ IT.

(C)
(A) Section 6 — STATE
&
(B) INDIAN LEASES
→ DUAL ACCTING

Steps in Valuing Gas

- Determine whether gas is subject to 206.152 or 206.153, or both under 206.155 ← both UNPROCESSED ACCTING COMPARISON - dual ACCTING
- Determine point of valuation for product(s) AT OR NEAR the LEASE (SALE @ platform)
- Determine nature of sales contract(s) for product(s)
- Determine nature of transportation and processing agreements for product(s)

Affiliate – After *National Mining Assn.*

For ownership of 10 through 50 percent, MMS will consider:

- Common officers or directors
- Percentage of ownership in relation to others
- Operation of the lease, plant, etc.
- Participation in day-to-day operations
- Any other evidence of control

Opposing Economic Interests - Vastar Resources, Inc.

The Board listed the following five items:

- the contentious nature of the protracted and difficult negotiations leading to the contract,
- the specific contract provisions ensuring Vastar's attainment of its economic interests,

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- the gas pricing mechanisms utilizing rates established by an independent third party,
- the detailed operational and arbitration provisions ensuring Vastar's receipt of fair market value prices,

(B)(7)(e)

- the parties' retention of the index pricing and related contract provisions after Vastar's August 2000 sale of its entire interest in Southern LP to Southern "Energy.

FIRST BENCHMARK

- Gross proceeds from non-arm's-length transaction
- If "equivalent" to gross proceeds
- Under comparable arm's-length contracts

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For like-quality gas in the same field or, if necessary to obtain a reasonable sample, from the same area.

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(B)(7)(e)

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(B)(7)(e)

FACTORS TO CONSIDER

- Price
- Time of execution
- Duration
- Market or markets served
- Terms
- Quality of gas
- Volume ←
- Such other factors as may be appropriate

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(B)(7)(e)

FIRM

BENCHMARK TWO FACTORS

- Other reliable public sources of price or market information
- Other information as to:
  - The particular lease operation or
  - The saleability of the gas
- But don't forget - all information considered must be relevant in valuing like-quality gas

INSIDE FERC
BID WEEK
High/Low
MIDPOINT

INDEX PRICES

1. FIXED PRICE DEALS
20% of MKT

- Source - average of reported negotiated fixed priced contracts
- Use – buyers and sellers using index-linked prices in lieu of negotiating fixed prices
- Perception – index-based transfer prices automatically satisfy benchmark one
- Reality – not a safe harbor

Allowances (cont'd)

- Where lessee incurs many services, but pays one bundled fee, MMS must determine breakout of fee paid among various services
- Lessee's may apply to exceptions to allowance limits, including extraordinary costs of processing gas

Marketable Condition

- Requirement that royalty be based on production in marketable condition
  - Definition
  - Sarah Inderbitzin's Presentation

by DeWitt

Acknowledging that we have previously interpreted this provision to mean that only producers who market gas downstream, not producers who "opt to sell at the leasehold," must pay royalties based on the increase in gas value associated with marketing expenditures, *Indep. Petroleum Ass'n v. DeWitt*, 279 F.3d 1036, 1041 (D.C. Cir. 2002), the Secretary argues that "Fina did market its production downstream, through its affiliate FNGC," Appellee's Br. at 46. This argument, however, differs not at all from the Secretary's basic position against recognizing intracorporate sales for valuation purposes-a position that, as we have just explained, conflicts with the regulation's plain language.

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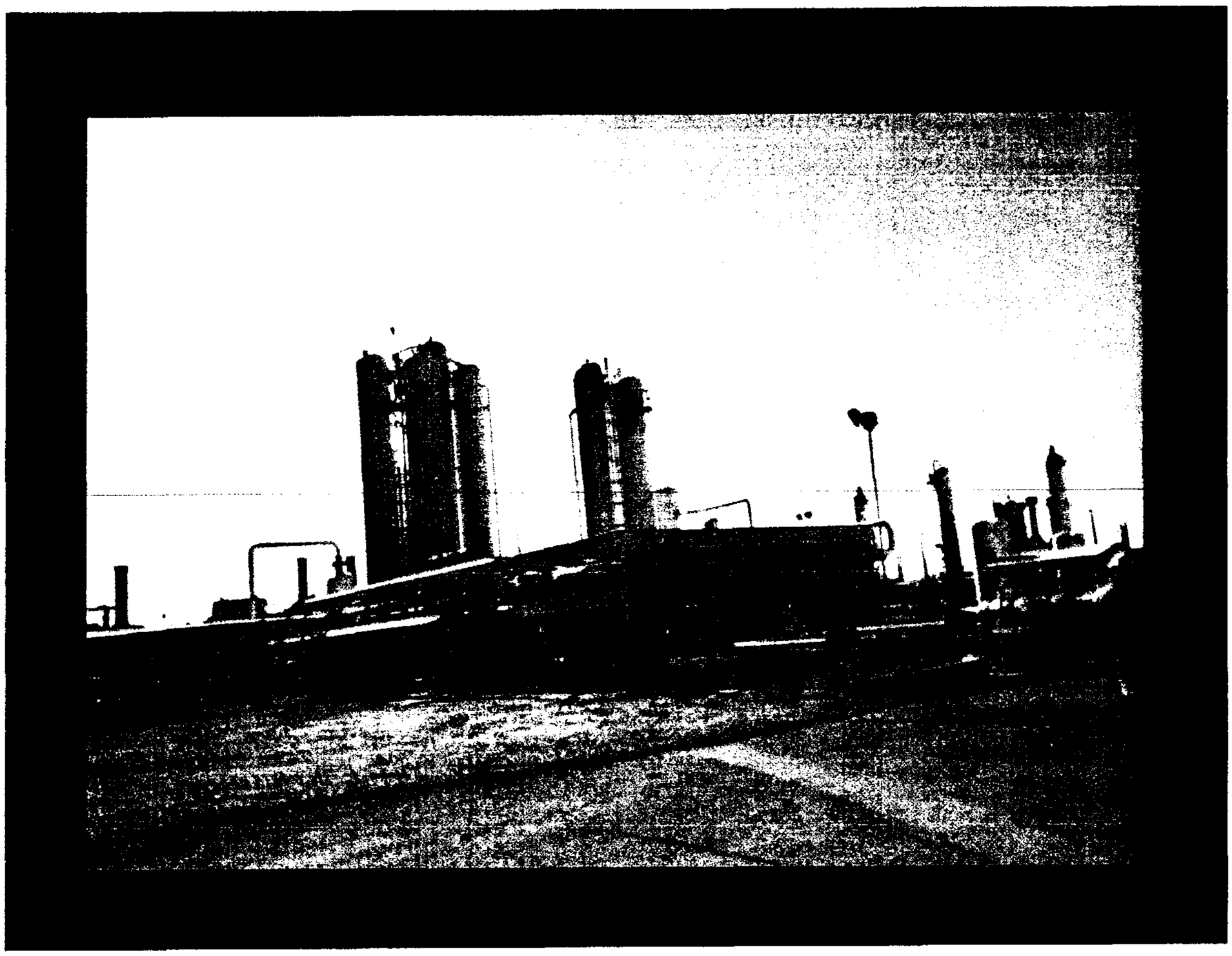
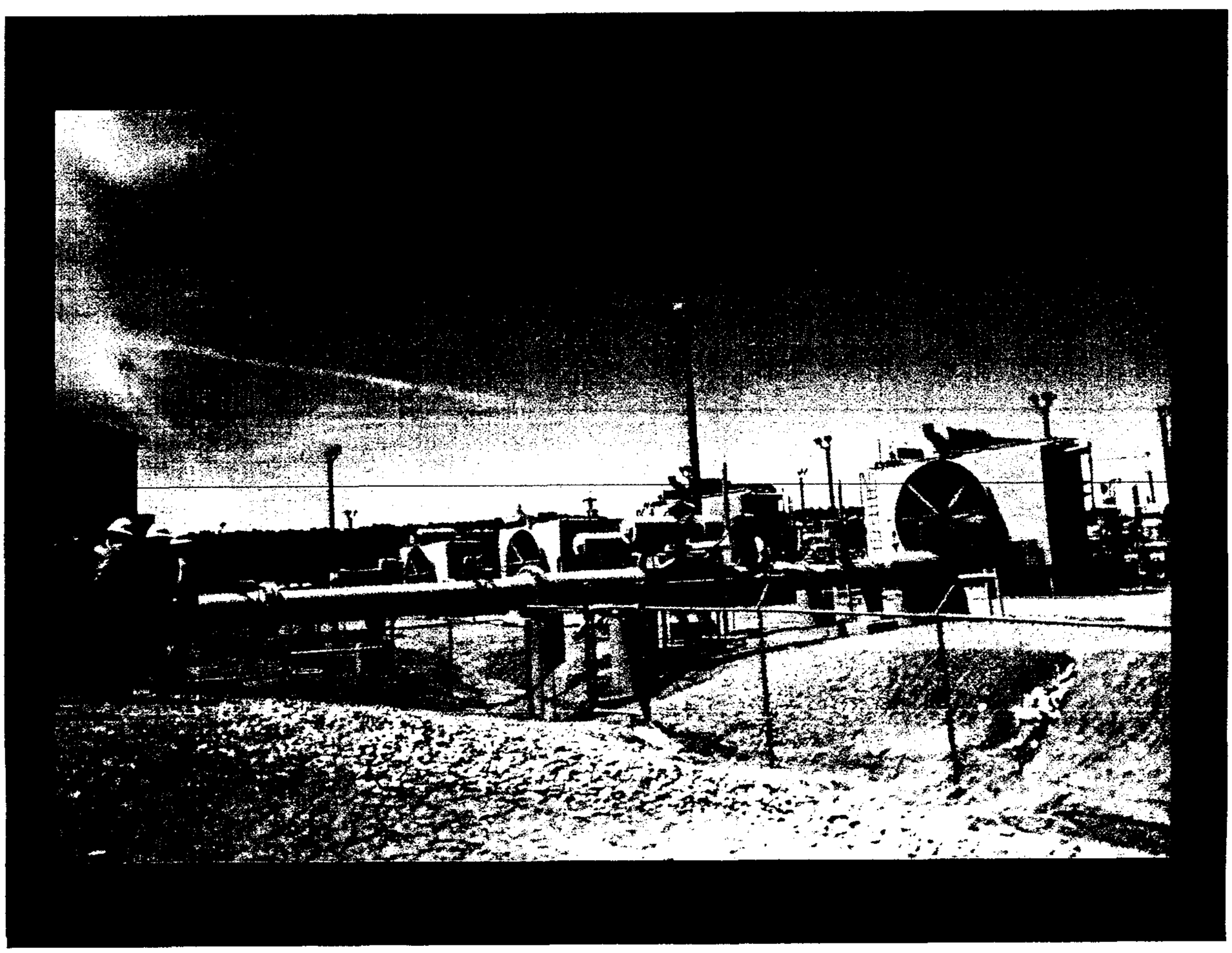
The Marketable Condition Rule

Sarah L. Inderbitzin





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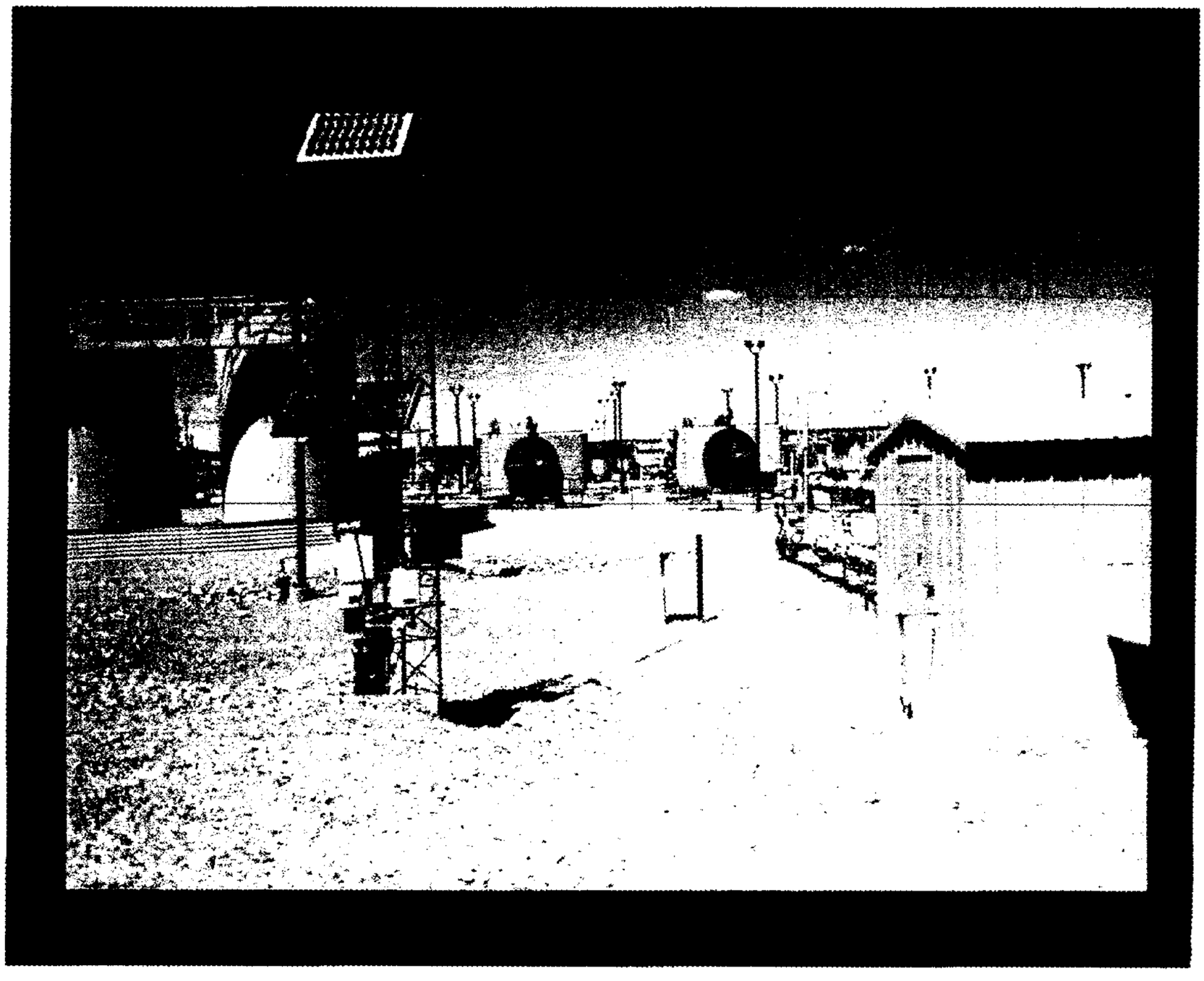

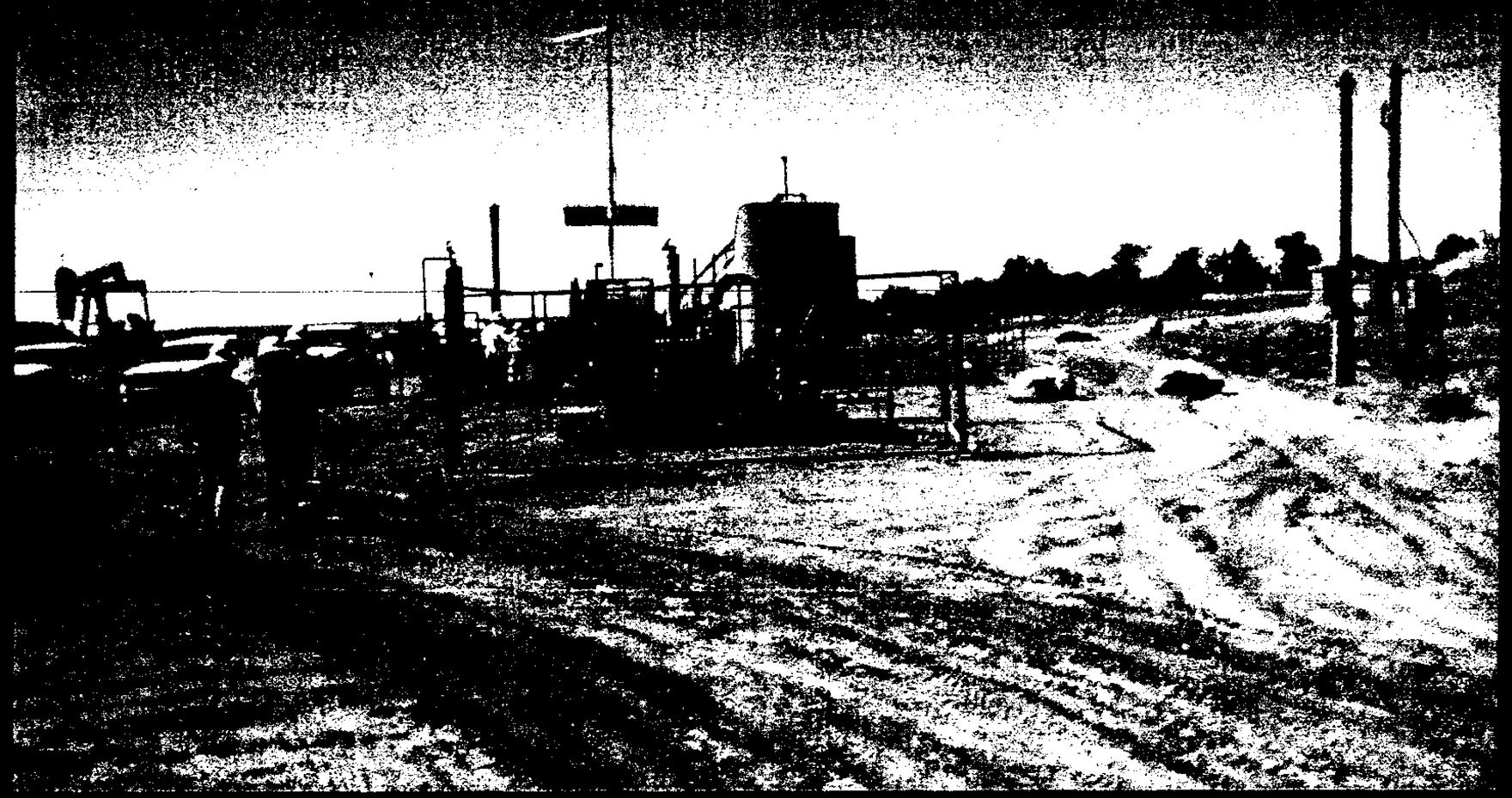

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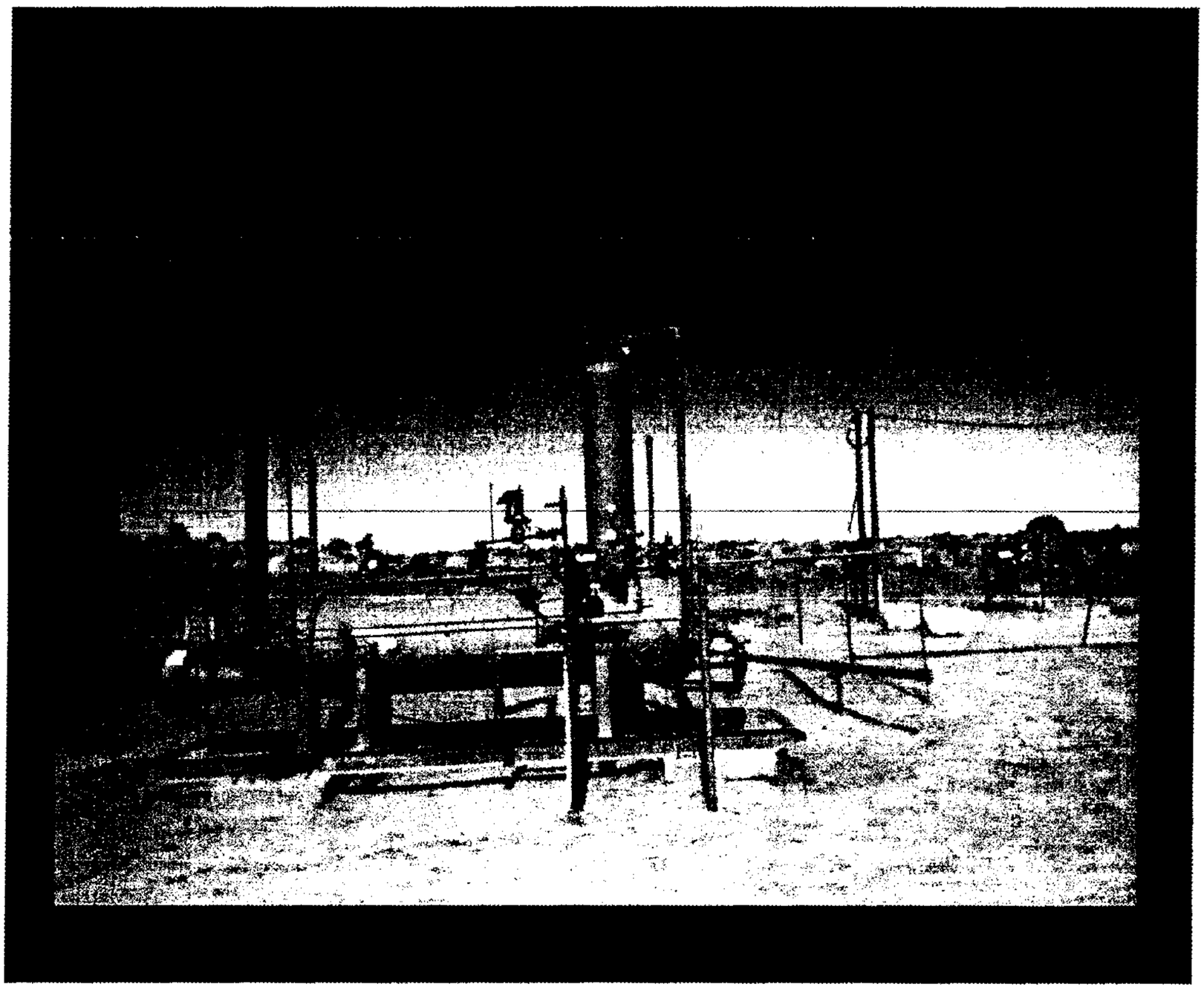

The Gross Proceeds Rule & Allowances

- Gross Proceeds
  - Definition: Total consideration accruing to the lessee. 30 C.F.R. § 206.150 (2007)
  - Rule: Under no circumstances shall the value of production for royalty purposes be less than the gross proceeds accruing to the lessee less applicable allowances. 30 C.F.R. § 206.152(h) (2007)
- Allowances – the only allowable deductions from Gross Proceeds are transportation and processing costs
  - Problems:

(1) Lessees try to define every cost as transportation or processing

(2) Lessees are charged "bundled" fees that combine allowable and non-allowable costs

(3) Many services are for both transportation and (B)(5) (B)(7)(e)

The Marketable Condition Rule

- Promulgated originally in 1942, requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment:
- The lessee must place gas in marketable condition . . . at no cost to the Federal Government. 30 C.F.R. § 206.152(i) (2007)

The Marketable Condition Rule

- If a lessee sells "unmarketable" gas at a lower cost, the gross proceeds for purposes of royalty calculation must be "increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. 30 C.F.R. § 206.152(i)

- To take a simple example, assume it costs a producer 20 cents to put gas in marketable condition by dehydrating and compressing it, and the producer sells the dehydrated and pressurized gas for $1. "Gross proceeds" for purposes of royalty calculations is $1, regardless of whether the producer dehydrates and pressurizes and then sells the gas for $1, or instead sells the gas for 80 cents to a purchaser who dehydrates and pressurizes it

Definition of Marketable Condition

The regulations define marketable condition as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151.

What Processes Are Covered?

- Treating gas to put it into marketable condition involves:
  - Gathering - the movement of lease production to a central accumulation and/or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively." 30 C.F.R. § 206.151 (2007) (federal gas)
  - Compression – means the process of raising the pressure of the gas. 30 C.F.R. § 206.151 (2007) (federal gas)
  - Dehydration - the removal of water vapor
  - Removal of acid gases - usually called "sweetening" and the removal of hydrogen sulfide or carbon dioxide

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(B)(7)(e)

Major Principles From MCR Cases

- Lessees must compress, gather, and dehydrate gas at no cost to the lessor
  - *The Texas Co.* - costs of gathering and compression were not deductible in determining the royalty value of the gas because "[t]he lessee has not shown that the gas can be marketed at the pressure with which it comes from the wells"
  - *California Co. v. Udall* - costs of gathering, compression, and dehydration were necessary to put the production into marketable condition because there was "no evidence of a market for the gas in the condition it comes from the wells. The only market, as far as this record shows, was for this gas at certain pressure and certain minimum water and hydrocarbon content"

Major Principles From MCR Cases

- Lessees must remove sulphur (sweeten) and carbon dioxide (CO_2) at no cost to the lessor
  - *Apache Corp.* – MMS's disallowance of a price reduction for sweetening in determining royalty value was proper
  - *Texaco, Inc. v. Quarterman* - upheld MMS order requiring Texaco to increase the gross proceeds by the amount the sales price was reduced by a per Mcf fee the purchaser charged to remove hydrogen sulfide
  - *Amoco Prod. Co. v. Watson/BP America Prod. Co. v. Burton* - the Assistant Secretary properly required the lessees to remove CO_2 at no cost to the lessor, even though the CO_2 removal took place a considerable distance downstream from the leases

Major Principles From MCR Cases

- Lessees only have to get production into marketable condition once
  - *Devon Energy Corp. v. Kempthorne*
  - Example: Assume a sales contract requires gas to be delivered into the main transportation pipeline at 1200 psi. Also assume that the gas is produced at 10 psi, is compressed at the lease to 200 psi, is compressed off lease to 1200 psi, travels 20 miles and is compressed again to 1200 psi. The first two compressors are not deductible costs of placing the gas into marketable condition. However, the costs associated with the third compressor are deductible transportation costs because the gas was placed into marketable condition with respect to compression when it met the pipeline pressure requirement

Major Principles From MCR Cases

- If a portion of the costs of a process are attributable to transportation, then those costs are deductible. Therefore, the costs must be allocated between transportation and marketable condition
  - *Shell Offshore Inc.*, 142 IBLA 71 (1997)
  - Example: Assume a sales contract requires gas to be delivered into the main transportation pipeline at 1200 psi. Also assume that the gas is produced at 10 psi, is compressed at the lease to 200 psi, and is compressed off lease to 1500 psi. In that instance, the costs associated with the first compressor are not deductible costs of placing the production in marketable condition, and 4/5 (1200/1500) of the second compressor costs are also not deductible marketable condition costs. However, 1/5 of the costs associated with the second compressor are deductible transportation costs because the gas was placed into marketable condition with respect to compression when it met the pipeline pressure requirement

Major Principles From MCR Cases

- The lessee cannot pay another entity to perform the processes necessary to place the gas into marketable condition

Net Back

  - *Placid Oil Co.* - the lessee cannot pay its affiliate to perform the processes necessary to place the gas into marketable condition and disallowed deductions for the costs (payments to the affiliate) of gathering, dehydrating, compressing the gas
  - *Exxon Co. USA* - Exxon had to add to its reported value the amount by which the gas sales price was reduced to compensate the purchaser for sweetening. The fact that the purchaser agreed to accept untreated gas did not mean the gas was marketable in its natural state, and costs of treatment could not be made deductible by transferring the treatment function to the purchaser

Major Principles From MCR Cases

- Lessees must pay royalties on reimbursements they receive gathering, compression, and treatment because they are costs of placing the gas into marketable condition
  - *Mesa Operating Ltd. v. DOI, Oryx Energy Co. v. DOI, and Amerada Hess Corp. v. DOI* – royalties are due on gross proceeds accruing to the lessee. This includes payments for costs of treatment, measuring, gathering, compressing, sweetening, and dehydrating where the services are necessary to place gas in marketable condition. Thus, where the purchaser reimburses the lessee for such costs, the payments become part of the value of production (gross proceeds) subject to royalty

Major Principles From MCR Cases

- The fact that a marketable condition cost also may be part of processing does not make it a deductible processing cost
  - *Shoshone & Arapaho Tribes v. Hodel* - upheld MMS's denial of a deduction for the costs of compressors located at the inlet of a gas processing plant. Even though the compressors increased gas flow pressure within the plant (which was a processing function), they also "increase the gas flow pressure to the level necessary to pass through the pipeline and ultimately to the purchaser of the gas"
  - Thus, you must allocate the compressor costs between marketable condition and processing. For example, assume the compressor at the plant inlet boosts pressure to 1500 psi and the pipeline pressure requirement is 1200 psi. In that case, 80% (1200psi/1500psi) of the compression costs would be nondeductible costs to place the production into marketable condition

Major Principles From MCR Cases

- There is no "geographic limitation" to the marketable condition rule, except for gathering, which ends at the BLM or MMS/OMM approved royalty measurement point. Thus, there is no bright-line geographic limit to the marketable condition rule
  - *Amoco/BP* - the government may apply the marketable condition rule as far downstream as costs are incurred to place production into marketable condition
  - *Devon* - there are numerous decisions where, with respect to natural gas, DOI uniformly denied a transportation deduction based upon the geographic location of the natural gas

Major Principles From MCR Cases

- If a lessee sells some gas that meets the definition of marketable condition for a particular market, that does not convert all gas sold into marketable condition. One must look to the market into which the gas at issue is sold to determine what marketable condition is for that gas
  - *Amoco/BP* – although some gas was sold without removing CO_2, DOI properly required lessees to condition the rest of the gas to pipeline CO_2 content requirements to serve more distant markets into which it was sold
  - *Devon* - although some gas was sold at lower pressure because the pipeline into which it was sold had a lower pressure requirement, the remaining gas had to be compressed to the higher pressure requirement of the pipeline into which it was sold
  - *Beartooth Oil and Gas Co. v. Lujan* – most of the gas was at sufficient pressure to travel to the purchaser's compressor. However, some of the gas had to be compressed at the lease to be accepted into the purchaser's line and those were non-deductible marketable condition costs

Major Principles From MCR Cases

- Marketable condition means gas treated so that it is marketable for delivery to the pipeline
  - *Amoco/BP* – lessees must treat gas to pipeline CO_2 requirements to serve distant markets into which it was sold
  - *Devon* - gas must be in marketable condition for the market it serves, so it must be at the pressure necessary to enter the pipeline that takes the gas to market
  - *R.E. Yarbrough* - compression, dehydration, and gathering costs are necessary to put gas in marketable condition for delivery to pipeline buyer
  - *Shoshone Indian Tribe* - denial of deduction for compression costs because they "increase the gas flow pressure to the level necessary to pass through the pipeline and ultimately to the purchaser of the gas"
  - *The Texas Co.* - denied deduction for cost to compress low pressure gas to the pressure required to enter purchaser's pipeline
  - *J-W Operating Co.* - "it has been held repeatedly that the dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible"

Major Principles From MCR Cases

- Because one must look to the market into which the gas is sold, one must look at the contracts that are "typical" for gas sold to that market
  - *Amoco/BP* - the regulations do not require MMS to define typical sales contracts – and thus marketable condition – as relating to transactions at the leasehold or immediately nearby
  - *Devon* – rejected Devon's argument that MMS did not look at contracts "typical for the field or area" because it only looked at Devon's contracts for the particular gas sold. Like the lessees in *Amoco/BP*, Devon asserted that MMS defines marketable condition as meaning gas conditioned for the market it serves. That is true because the "typical" contracts for the area in *Devon* were for treated gas, *i.e.* the market was for treated gas. In *Devon*, like *California Co.*, "there is no evidence of a market for the gas in the condition it comes from the wells. The only market this record shows was for this gas at certain pressure and certain minimum water and hydrocarbon content"

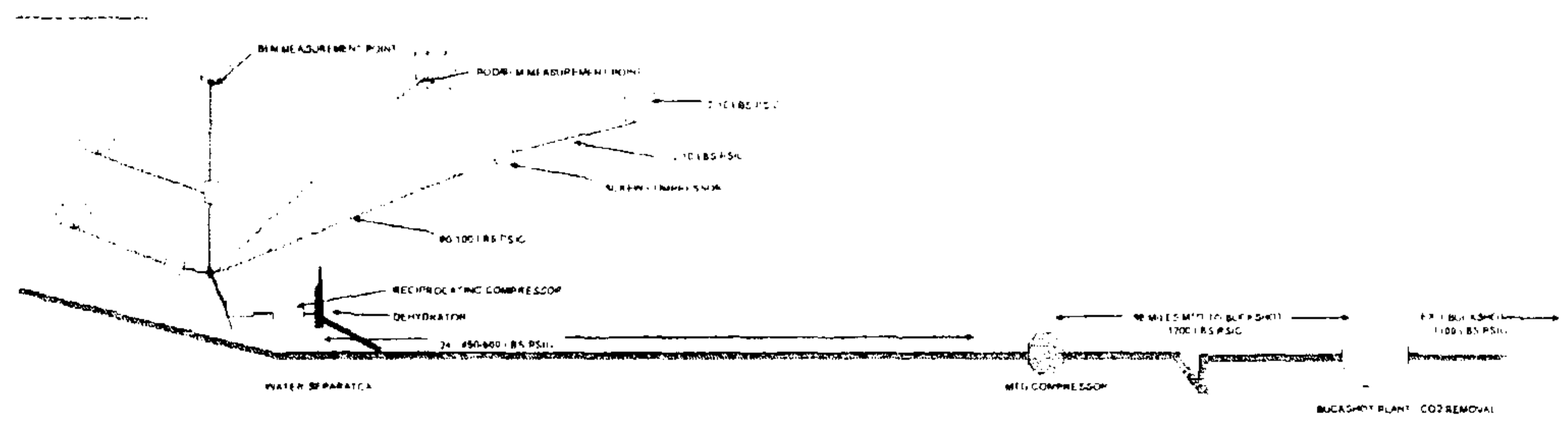
Major Principles From MCR Cases

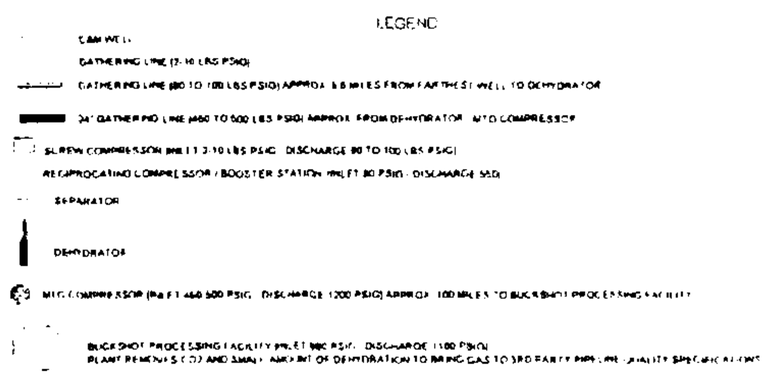
- A lessee cannot shift the location of where gas is marketable by having another entity perform the processes necessary to place production into marketable condition
  - *Bailey D. Gothard v. US* – mere fact a purchaser was willing to buy gas at discounted price for its costs to place gas into marketable condition does not mean the gas was marketable at that point. "Any other result would elevate form over substance, and create a huge loophole whereby federal lessees could reduce their royalty obligations by shifting the costs of gathering and compression to buyers in a producer-created market, avoiding the marketability requirements of the "real" established market"

Major Principles From MCR Cases

- The fact that one aspect of placing production into marketable condition ends or has been accomplished does not mean that the production is in marketable condition in all respects
  - *Nexen Petroleum USA Inc. v. Norton* - "in certain circumstances, there may be transportation costs incurred prior to treatment that may be deducted from royalty." In that case, "once treated" the product was in marketable condition
  - *Devon* - just because gathering ends and a lessee may deduct pipeline costs as transportation allowances downstream of the point where gathering ends does not mean that the production is in marketable condition at that point. If the production must be dehydrated, compressed, sweetened, etc., downstream from that point, that production is not in marketable condition until all of those processes are performed – even where the processes are performed sequentially

Major Principles From MCR Cases





Major Principles From MCR Cases

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  - AND The sales price is the same as that for gas that is compressed; and
  - AND The pressure of the gas at the wellhead is adequate to gain access to the pipeline market

Major Principles From MCR Cases

- Where gas is processed for the removal of acid gases, commonly referred to as "sweetening," no processing cost deduction shall be allowed for such costs unless the acid gases are further processed into a gas plant product. In such event, the lessee shall be eligible for a processing allowance as determined in accordance with this subpart. However, MMS will not grant any processing allowance for processing lease production which is not royalty bearing. 30 C.F.R. § 206.158(d)(1)
  - *Mobil Exploration & Producing U.S. Inc. v Norton* - ExxonMobil's gas treatment process was nothing more than a "sweetening" process that is similar to other treatment processes in the industry used to place gas into marketable condition
  - For example, in *Amoco/BP,* movement of CO_2 to a treatment plant was to facilitate treatment to remove the CO_2 a non-deductible cost of putting production into marketable condition. Had the lessee captured the CO_2 and sold it after removal, the removal process would have qualified as processing, and the lessee could have taken a processing allowance

Major Principles From MCR Cases

- Lessees may not deduct the costs for boosting residue gas, *i.e.*, compression of the methane, at a gas processing plant. 30 C.F.R. § 202.151(b)
  - The lessee is required to condition the production for market. The cost for boosting residue gas is considered as a cost necessary to place the gas in marketable condition and is not an allowable deduction
  - *Devon* – disallowed boosting of residue gas at treatment facility even though some compression was allowed before entering the facility as a deductible transportation cost

Mr. Jack Lougee
State of New Mexico
Taxation and Revenue Department
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

MS392B2

Dear Mr. Lougee:

The Mineral Management Service (MMS) provides this letter in response to The State of New Mexico's (State) request for clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas. Answers to the questions in the State above referenced request are provided below. Please note that the answers are based on guidance provided by the MMS' decision "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003, (the Devon decision). The MMS responses are based on the data provided with the State request of May 7, 2007 (Enclosure). Excerpts from the Devon decision are referenced in MMS's response following the questions. These include citations from the Tenth Circuit Court (10th Cir.) and the Interior Board of Land Appeals (IBLA).

1. **Is typical field compression allowed?**

   No. The costs related to field compression are considered costs to put production in marketable condition. See *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

2. **Is typical field dehydration allowed?**

   No. The costs related to field dehydration are considered costs to put production in marketable condition. See *J-W Operating Co.*, 159 IBLA 1 (2003) and *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

3. **Are the C1 & C2 compressors at the inlet to the Chaco plant allowed?**

   No. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel,* 903 F.3d 784 (10th Cir. 1990).

4. **Are the A & B compressors at the Chaco plant allowed**?

No. The A & B compressors are considered compressors at the inlet of the Chaco plant. The transfer on title from field gas inlet to plant gas occurs after glycol treating unit which is after the A & B compressors. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel,* 903 F.3d 784 (10th Cir. 1990).

Due to changes in the A & B compressors at the Chaco plant from gas fired to electrical motor-driven units are the electrical charges allowed? No, for the same reasoning as the above paragraph.

5. **Is the plant dehydration allowed**?

The dehydration costs to remove moisture from the marketable condition point of 7 lbs/MMcf to that necessary for processing would be allowed. See *Exxon Corp.*, 118 IBLA 221 (1991).

In the case of the Chaco plant, this would be the plant dehydration process immediately preceding the Cryogenic trains and after the Glycol treating units. There is a physical meter between these two areas that serves as the processing demarcation point.

6. **Are the residue compressors after the Cryo plant allowed**?

No. The processed gas rule has a provision prohibiting the deduction of the costs of boosting residue gas at the gas processing plant.
See 30 CFR § 202.151(b) (1988-present).

A. The 1942-1987 Rules and Judicial Precedents

The terms of the Federal and Indian oil and gas leases in force since 1942 requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment. This was originally addressed in 30 CFR § 221.31 (1942–1981) and recodified as 43 CFR § 3162.7-1 (1942-1982).

> (a) The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land.

The principle established by the marketable condition rule and several judicial precedents including *The Texas Company,* California *Co.* v. *Udall,* and *PIacid Oil Co.* - namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value - stood uncontested until the late 1980's.

The consideration of gas processing plants that process and compress residue gas for delivery to a pipeline at the tailgate of the plant began in 1942. The MMS has not allowed a deduction for those compression costs because of the marketable condition rule and the corresponding regulation specially disallowing deductions for the costs of boosting (compressing) residue gas. First codified in 30 CFR § 221.51(b) (1942-1981) and later in CFR § 206.106 (b) (1982-1987).

B. The 1988 Rules

The Department rewrote its royalty valuation rules for oil and gas produced from Federal and Indian leases 53 Fed. Reg. 1230 (January 15, 1988) (gas valuation rule). The 1988 rules expressly continued and reaffirmed the marketable condition rule. An express definition of "marketable condition" was added in 30 CFR § 206.151 (1982-Present):

> *Marketable condition* means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

These provisions, with changes not relevant here, remain in force for Federal leases today.

Continuing with quotes directly from the Devon decision:

> "In short, the 1988 rules continued and reinforced the earlier principles and precedents regarding the lessee's obligation to put production into marketable condition. The sole exception was the modification regarding what constitutes "gathering" under the new definition. Requirements regarding compression, dehydration, and sweetening continued without change in the 1988 rules".

The Devon decision addressed the continuation of the non-deductibility of compression costs of residue gas at a gas processing plant in the 1988 rules and referred to 30 CFR § 202.151(b) (1988-present).

C. Applicable Case Precedents after 1988

Shoshone & Arapahoe Tribes v. Hodel, 903 F.3d 784 (10th Cir. 1990)

> Disallowed the cost of compressors located at the inlet of a gas processing plant due to it being considered a marketing function. The increase in gas flow pressure was necessary to pass through the pipeline and ultimately to the purchaser of the gas, a marketing function.

R.E. Yarbrough & Co., 122 IBLA 217 (1992)

> The IBLA held that compression, dehydration, and gathering costs were necessary to put the gas into marketable condition "for delivery to the pipeline buyer" and that Yarbrough must pay royalties on a value not reduced by these costs.

J-W Operating Co., 159 IBLA 1 (2003)

> An affiliated gathering system compressed, dehydrated, and gathered gas produced from Federal onshore leases. The affiliate purchased some of the gas and reduced the purchase price by a specified amount for the costs of those functions. The MMS Associate Director's decision conceded that a portion of those fees related to the movement of production beyond the BLM-approved point of measurement at the lease meter were properly attributable to transportation . . .
>
> The IBLA further held "that the costs of dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible".

Exxon Corp., 118 IBLA 221 (1991)

The IBLA allowed Exxon to deduct the cost of unusual dehydration undertaken as part of moving the raw gas stream to the processing plant. It reasoned had the dehydration been performed as part of processing the gas at the processing plant instead of a field facility the cost would be deductible as a processing cost. This unusual dehydration was to a level of "0.01 lbs. water/mcf" a very large amount below the level set by the sales contract. The reasoning continued the extreme level of dehydration was "necessitated by the manufacturing process".

Allowances for transportation, processing and dehydration required for processing will be deductible. The MMS noted a couple of clarification questions on the Enclosure. Please provide MMS another copy if any changes are made. If you have any additional questions please contact Mr. Michael Ernest at (303) 231-3747.

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

bc: N:Common: CAM/Fed/Shared/FEDCAM: Response to New Mexico – Devon allowances4.doc: MErnest (303) 231-3747; finalized: 9/20/07 – rjoiner (303) 231-3753 changes made 9/25/07: rjoiner

State of New Mexico Oil & Gas Bureau questions for the MMS based on the Devon decision:

1. Is typical field compression allowed?
2. Is typical field dehydration allowed?
3. Are the C1 & C2 compressors at the inlet to Chaco plant allowed?
4. Are the A & B compressors at Chaco plant allowed?
5. Is the plant dehydration allowed?
6. Are the residue compressors after the Cryogenic processing plant allowed?

ENTERPRISE GATHERING SYSTEM

(B)(4)

ENTERPRISE GATHERING SYSTEM

INLET OUTLET

(B)(4)

(B)(4)

INLET *OUTLET*

ADDITIONAL DISCUSSION

TYPICAL FIELD COMPRESSOR STATIONS

(B)(4)

Duke Energy® Field Services

Duke Energy NGL Services

A New Kind of Energy™

CALCULATION OF ADJUSTED NET PURCHASE PRICE BY DUKE ENERGY
Amoco Painter
Jan-04

	ETHANE	PROPANE	I-BUTANE	NORMAL	NATURAL GAS	*TOTALS*	Marketing Fee
Mt. Belvieu Non-Tet (mo. Avg.)							
Seminole P/L Tariff		(B)(4)				(B)(4)	
Weighted Avg. Frac Fee							
Marketing Fee .0025							
NETBACK PRICE							
Volumes							
Amoco Painter							

(B)(4)

(B)(4)

WYOMING DEPARTMENT OF AUDIT
MINERAL AUDIT DIVISION

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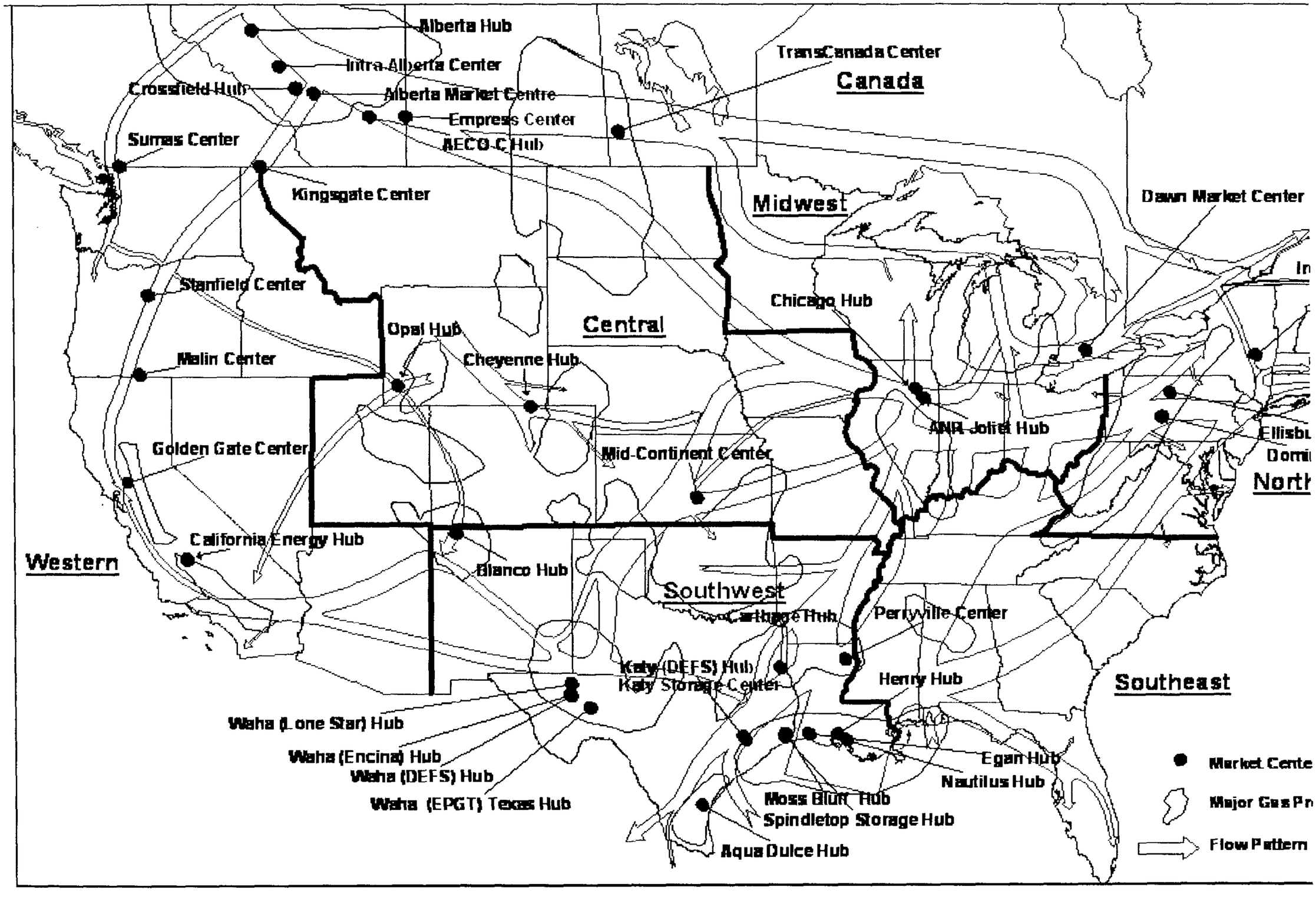


Note: DEFS = DCP Midstream LP; EPGT = Enterprise Products LP.

Allowances

The only allowable deductions from Gross Proceeds are transportation (gathering) and processing costs but not the cost to treat gas to remove nonroyalty bearing substances such as CO_2.

Determining the Manzanares Gas System's cost breakdown by year by function*

	2007	2006	2005	2004	2003
Treating %	25	23	24	21	22
Gathering** %	75	77	76	79	78

* The values above are for illustration purposes only and do not reflect actual values experienced by the system's operator.

**The MMS defines gathering differently than the system operator.

Transportation and Marketable Condition

- Allowable transportation costs for the pipe transporting the gas begins at the BLM approved royalty measurement point and continues to the Milagro treating plant.

- Compression and dehydration costs are not allowable deductions until after marketable condition has been met. Costs are then considered transportation costs.

- In the Manzanares Gas System marketable condition is reached before the Booster A and Booster B compressor stations. The costs of these two stations are allowed as transportation deductions.

Annual Factor for Fees

This Annual Factor is applied against the bundled fee charged by the system operator to calculate the portion of the fee allowed as a transportation deduction.

The Annual Factor is the product of the annual Gathering % and the Transportation %.

	2007	2006	2005	2004	2003
Gathering %	75	77	76	79	78
Transportation %	50	45	45	45	43
Annual Factor %	37.50	34.65	34.42	35.55	33.54

* The values above are for illustration purposes only and do not reflect actual values experienced by the system's operator.

Allowable Costs for Transportation

The portion of transportation (gathering) costs involved in bringing gas to marketable condition is not allowed as a deduction. All costs after that point are allowed.

Determining the Manzanares Gas System's gathering cost breakdown by year by function*

	2007	2006	2005	2004	2003
Marketable Condition %	50	55	55	55	57
Transportation %	50	45	45	45	43

* The values above are for illustration purposes only and do not reflect actual values experienced by the system's operator.

The Process of Unbundling Fees

- Determine the market and fees from contracts
- Build a flow chart of the pipeline
- Find point gas reaches market condition
- Collect cost data for equipment, pipe, O/H…
- Calculate the current depreciation and ROI
- Allocate costs - allowable and non-allowable
- Determine allowable cost percentage of total
- This percentage is applied to transportation fee

Summary

- Onshore more difficult because of unregulated pipelines
- MMS will request this data from the producer
- Expect the producer to obtain this information from service provider
- MMS can and has requested the data from the service provider
- If data is not supplied MMS will work with producer and service provider and may issue non-compliance notices
- Offshore is beginning to review transportation and processing allowances

What Processes Are Covered?

- Altering gas to put it into marketable condition involves:
  - Compression – means the process of raising the pressure of the gas.
  - Dehydration - the removal of water vapor
  - Removal of CO_2 and acid gases - usually called treating or "sweetening" which removes hydrogen sulfide or carbon dioxide

Compliance and Allowances

Mary Williams
Manager
Federal Onshore Compliance and Asset Management
Minerals Management Service
Mineral Revenue Management

005783

Current Initiatives

- Indian negotiated rule-making status
- Compliance Business Plan
- Enforcement actions
- Adjustment monitoring
- Marketable Condition and unbundling

Progress on RPC Recommendations

- Implement tools similar to AFS/PAAS
- Gas Plant Efficiency reporting (GPOR)
- Compliance Strategy Council
- Evaluate IRS approach to high risk/special audits
- Risked based compliance

Progress on RPC Recommendations

- Enhance audit/compliance review tracking
- New GPRA goals
- Eliminate duplicate data and automate updates
- Complete the Compliance Review manual
- Revise the Federal gas valuation regulations
- Revise solid mineral valuation regulations

The Gross Proceeds Rule & Allowances

- Gross Proceeds
  - Definition: Total consideration accruing to the lessee. 30 C.F.R. § 206.150 (2007)
  - Rule: Under no circumstances shall the value of production for royalty purposes be less than the gross proceeds accruing to the lessee less applicable allowances. 30 C.F.R. § 206.152(h) (2007)
- Allowances – the only allowable deductions from Gross Proceeds are transportation and processing costs
  - Issues:

  (1) Defining all costs as transportation or processing

  (2) Lessees are charged "bundled" fees that combine allowable and non-allowable costs

  (3) Many services are for both transportation and processing

The Marketable Condition Rule

- Promulgated originally in 1942, requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment:
- The lessee must place gas in marketable condition . . . at no cost to the Federal Government. 30 C.F.R. § 206.152(i) (2007)

The Marketable Condition Rule

- If a lessee sells "unmarketable" gas at a lower cost, the gross proceeds for purposes of royalty calculation must be "increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services" to place the gas in marketable condition. 30 C.F.R. § 206.152(i)

- To take a simple example, assume it costs a producer 20 cents to put gas in marketable condition by dehydrating and compressing it, and the producer sells the dehydrated and pressurized gas for $1. "Gross proceeds" for purposes of royalty calculations is $1, regardless of whether the producer dehydrates and pressurizes and then sells the gas for $1, or instead sells the gas for 80 cents to a purchaser who dehydrates and pressurizes it

Definition of Marketable Condition

The regulations define marketable condition as "lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area." 30 C.F.R. § 206.151.

What Processes Are Covered?

- Treating gas to put it into marketable condition involves:
  - Gathering - the movement of lease production to a central accumulation and/or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively." 30 C.F.R. § 206.151 (2007) (federal gas)
  - Compression – means the process of raising the pressure of the gas. 30 C.F.R. § 206.151 (2007) (federal gas)
  - Dehydration - the removal of water vapor
  - Removal of acid gases - usually called "sweetening" and the removal of hydrogen sulfide or carbon dioxide

Major Principles From MCR Cases

- <u>Lessees must compress, gather, and dehydrate gas at no cost to the lessor</u>
  - *The Texas Co. and California Co. v. Udall* - no evidence of a market for the gas in the condition it comes from the wells. The only market, as far as this record shows, was for this gas at certain pressure and certain minimum water and hydrocarbon content

Major Principles From MCR Cases

- Lessees must remove sulphur (sweeten) and carbon dioxide (CO_2) at no cost to the lessor
  - *Apache Corp., Texaco, Inc. v. Quarterman*
  - *Amoco Prod. Co. v. Watson/BP America Prod. Co. v. Burton* - the Assistant Secretary properly required the lessees to remove CO_2 at no cost to the lessor, even though the CO_2 removal took place a considerable distance downstream from the leases

Major Principles From MCR Cases

- Lessees only have to get production into marketable condition once
  - *Devon Energy Corp. v. Kempthorne*
  - Example: Assume a sales contract requires gas to be delivered into the main transportation pipeline at 1200 psi. Also assume that the gas is produced at 10 psi, is compressed at the lease to 200 psi, is compressed off lease to 1200 psi, travels 20 miles and is compressed again to 1200 psi. The first two compressors are not deductible costs of placing the gas into marketable condition. However, the costs associated with the third compressor are deductible transportation costs because the gas was placed into marketable condition with respect to compression when it met the pipeline pressure requirement

Major Principles From MCR Cases

- If a portion of the costs of a process are attributable to transportation, then those costs are deductible. Therefore, the costs must be allocated between transportation and marketable condition
  - *Shell Offshore Inc.*, 142 IBLA 71 (1997)
  - Example: Assume a sales contract requires gas to be delivered into the main transportation pipeline at 1200 psi. Also assume that the gas is produced at 10 psi, is compressed at the lease to 200 psi, and is compressed off lease to 1500 psi. In that instance, the costs associated with the first compressor are not deductible costs of placing the production in marketable condition, and 4/5 (1200/1500) of the second compressor costs are also not deductible marketable condition costs. However, 1/5 of the costs associated with the second compressor are deductible transportation costs because the gas was placed into marketable condition with respect to compression when it met the pipeline pressure requirement

Major Principles From MCR Cases

- The lessee cannot pay another entity to perform the processes necessary to place the gas into marketable condition
  - *Placid Oil Co. and Exxon Co., USA*
- Lessees must pay royalties on reimbursements they receive gathering, compression, and treatment because they are costs of placing the gas into marketable condition
  - *Mesa Operating Ltd. v. DOI, Oryx Energy Co. v. DOI, and Amerada Hess Corp. v. DOI* –royalties are due on gross proceeds accruing to the lessee.
- The fact that a marketable condition cost also may be part of processing does not make it a deductible processing cost
  - *Shoshone & Arapaho Tribes v. Hodel* –

Major Principles From MCR Cases

- There is no "geographic limitation" to the marketable condition rule, except for gathering, which ends at the BLM or MMS/OEMM approved royalty measurement point. Thus, there is no bright-line geographic limit to the marketable condition rule.
  - *Amoco/BP* - the government may apply the marketable condition rule as far downstream as costs are incurred to place production into marketable condition
  - *Devon* - there are numerous decisions where, with respect to natural gas, DOI uniformly denied a transportation deduction based upon the geographic location of the natural gas

Major Principles From MCR Cases

- If a lessee sells some gas that meets the definition of marketable condition for a particular market, that does not convert all gas sold into marketable condition. One must look to the market into which the gas at issue is sold to determine what marketable condition is for that gas
  - *Amoco/BP* – although some gas was sold without removing CO_2, DOI properly required lessees to condition the rest of the gas to pipeline CO_2 content requirements to serve more distant markets into which it was sold
  - *Devon* - although some gas was sold at lower pressure because the pipeline into which it was sold had a lower pressure requirement, the remaining gas had to be compressed to the higher pressure requirement of the pipeline into which it was sold
  - *Beartooth Oil and Gas Co. v. Lujan*

Major Principles From MCR Cases

- Marketable condition means gas treated so that it is marketable for delivery to the pipeline

- Because one must look to the market into which the gas is sold, one must look at the contracts that are "typical" for gas sold to that market

  - *Amoco/BP* - the regulations do not require MMS to define typical sales contracts – and thus marketable condition – as relating to transactions at the leasehold or immediately nearby
  - *Devon* – rejected Devon's argument that MMS did not look at contracts "typical for the field or area" because it only looked at Devon's contracts for the particular gas sold. Like the lessees in *Amoco/BP,* Devon asserted that MMS defines marketable condition as meaning gas conditioned for the market it serves. That is true because the "typical" contracts for the area in *Devon* were for treated gas, *i.e.* the market was for treated gas. In *Devon,* like *California Co.*, "there is no evidence of a market for the gas in the condition it comes from the wells. The only market this record shows was for this gas at certain pressure and certain minimum water and hydrocarbon content"

Major Principles From MCR Cases

- A lessee cannot shift the location of where gas is marketable by having another entity perform the processes necessary to place production into marketable condition
  - *Bailey D. Gothard v. US* – mere fact a purchaser was willing to buy gas at discounted price for its costs to place gas into marketable condition does not mean the gas was marketable at that point.

Major Principles From MCR Cases

- <u>The fact that one aspect of placing production into marketable condition ends or has been accomplished does not mean that the production is in marketable condition in all respects</u>
  - *Nexen Petroleum USA Inc. v. Norton* - "in certain circumstances, there may be transportation costs incurred prior to treatment that may be deducted from royalty." In that case, "once treated" the product was in marketable condition
  - *Devon* - just because gathering ends and a lessee may deduct pipeline costs as transportation allowances downstream of the point where gathering ends does not mean that the production is in marketable condition at that point. If the production must be dehydrated, compressed, sweetened, etc., downstream from that point, that production is not in marketable condition until all of those processes are performed – even where the processes are performed sequentially

Major Principles From MCR Cases

- Per *Xeno, Inc.,* gas may be in marketable condition at the wellhead with respect to compression if:
  - There is a market at the wellhead evidenced by competing offers from multiple purchasers;
  - The sales price is the same as that for gas that is compressed; and
  - The pressure of the gas at the wellhead is adequate to gain access to the pipeline market

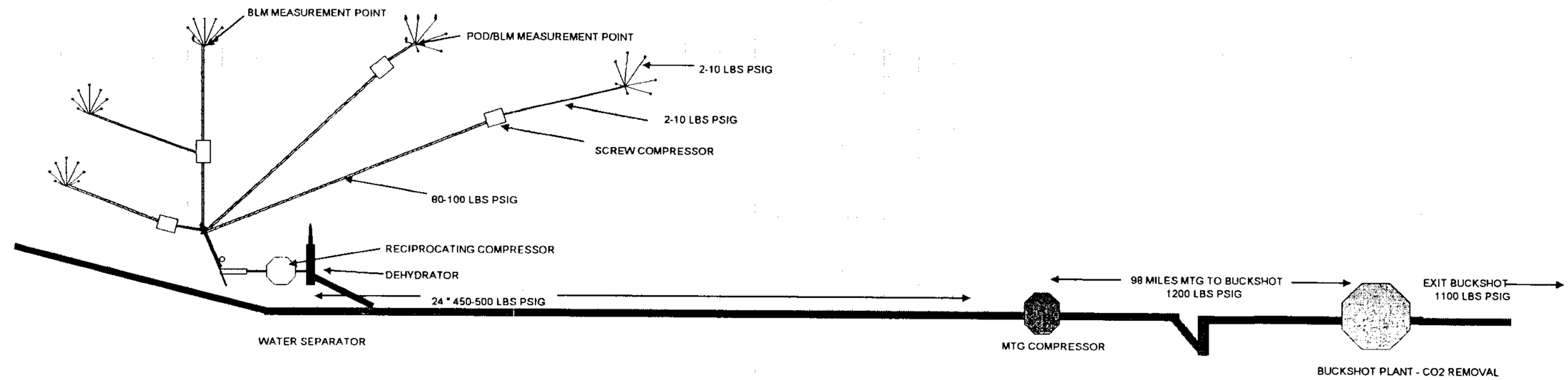
Major Principles From MCR Cases

- Where gas is processed for the removal of acid gases, commonly referred to as "sweetening," no processing cost deduction shall be allowed for such costs unless the acid gases are further processed into a gas plant product. In such event, the lessee shall be eligible for a processing allowance as determined in accordance with this subpart. However, MMS will not grant any processing allowance for processing lease production which is not royalty bearing. 30 C.F.R. § 206.158(d)(1)
  - *Mobil Exploration & Producing U.S. Inc. v Norton* - ExxonMobil's gas treatment process was nothing more than a "sweetening" process that is similar to other treatment processes in the industry used to place gas into marketable condition
  - For example, in *Amoco/BP,* movement of CO_2 to a treatment plant was to facilitate treatment to remove the CO_2 a non-deductible cost of putting production into marketable condition. Had the lessee captured the CO_2 and sold it after removal, the removal process would have qualified as processing, and the lessee could have taken a processing allowance

Major Principles From MCR Cases

- Lessees may not deduct the costs for boosting residue gas, *i.e.*, compression of the methane, at a gas processing plant. 30 C.F.R. § 202.151(b)
-
  - The lessee is required to condition the production for market. The cost for boosting residue gas is considered as a cost necessary to place the gas in marketable condition and is not an allowable deduction
  - *Devon* – disallowed boosting of residue gas at treatment facility even though some compression was allowed before entering the facility as a deductible transportation cost

Sample Map for the Devon Case



LEGEND

- CBM WELL
- GATHERING LINE [2-10 LBS PSIG]
- GATHERING LINE [80 TO 100 LBS PSIG] APPROX. 5.6 MILES FROM FARTHEST WELL TO DEHYDRATOR
- 24" GATHERING LINE [450 TO 500 LBS PSIG] APPROX. FROM DEHYDRATOR - MTG COMPRESSOR
- SCREW COMPRESSOR [INLET 2-10 LBS PSIG - DISCHARGE 80 TO 100 LBS PSIG]
- RECIPROCATING COMPRESSOR / BOOSTER STATION [INLET 80 PSIG - DISCHARGE 550]
- SEPARATOR
- DEHYDRATOR
- MTG COMPRESSOR [INLET 450-500 PSIG - DISCHARGE 1200 PSIG] APPROX. 100 MILES TO BUCKSHOT PROCESSING FACILITY
- BUCKSHOT PROCESSING FACILITY [INLET 800 PSIG - DISCHARGE 1100 PSIG]
  PLANT REMOVES CO2 AND SMALL AMOUNT OF DEHYDRATION TO BRING GAS TO 3RD PARTY PIPELINE QUALITY SPECIFICATIONS

The Process of Unbundling Fees

- Determine the market and fees from contracts
- Build a flow chart of the pipeline
- Find point gas reaches market condition
- Collect cost data for equipment, pipe, O/H...
- Calculate the current depreciation and ROI
- Allocate costs - allowable and non-allowable
- Determine allowable cost percentage of total
- This percentage is applied to transportation fee

Summary

- Onshore more difficult because of unregulated pipelines
- MMS will request this data from the producer
- Expect the producer to obtain this information from service provider
- MMS can and has requested the data from the service provider
- If data is not supplied MMS will work with producer and service provider and may issue non-compliance notices
- Offshore is beginning to review transportation and processing allowances

Unbundling Costs

- Follow the gas as it moves through the pipe
  - Gathering: wellhead to the approved measurement point
  - Transportation: approved measurement point to point of sale or delivery off the property
  - Processing: Extraction of royalty-bearing products - usually NGLs

Unbundling Costs

- Follow the gas as it moves through the pipe
  - Reasonable actual costs for transportation or processing
  - *Remember it does not include any costs to place production in marketable condition (pressure, purity, water content, etc.)*

Unbundling Costs

What is the hard part?

- Inconsistent use of terms-gathering, etc
- Incomplete information

How do I deal with incomplete information?

1. Have the processor provide unbundled pricing (maybe annually), or
2. Ask MMS to unbundle the prices

Valuation Regulations

- 30 CFR Part 206
  - Federal Oil: §206.100 - §206.120
  - Federal Gas: §206.150 - §206.160

Bundled Costs

Bundled Fees

- Gathering
- Transporting
- Compressing
- Treating
- Transporting
- Processing

Allowable Deductions

- Transportation of royalty bearing gas
- Processing and, including natural gas liquids (NGLs)

What is not allowed?

- Gathering - wellhead to approved royalty settlement point
- Treating to reach market condition
- Compression to reach market condition
- Costs to remove non-royalty substance

Unbundling Costs

How do I unbundle fees?

- Determine what are allowable processing or transportation costs

How do I do that?

- Follow the gas as it moves through the pipe

Ernest, Mike

From: Hessee, Megan
Sent: Monday, September 10, 2007 11:14 AM
To: Ernest, Mike; Williams, Mary; Morris, James
Subject: FW: Unbundling status

Rev 1

Bear Paw-Sinclair status

After holding a teleconference with Geary Keeton, Jim Morris, and Dennis Roller on August 9, 2007, MMS is sending a revised letter to Bear Paw's c (B)(7)(e) provided to Sinclair May 2005. The letter has been in typing since August 23 and is being routed back to Mary for signature. Geary Keeton would like to see the letter before it goes out.

Geary contacted Bear Paw's counsel August 10 regarding the contract Dennis Roller was looking for. No contract has been located. Dennis Roller sent a letter dated August 13 to Bear Paw/Grasslands Plant requesting a plant tour the third week of September and information such as schematics, gas properties, volumes, fee structure, compression, etc by September 27. Dennis Cameron, Bear Paw's counsel, said the tour would have to be another time. Dennis Roller also requested pricing data by October 5, 2007.

Bear Paw-Burlington Resources demand letter status

Ongoing discussions between Mary and Dennis on 1995 vs 1998. No new schedules have been received from ND. Mary, we need to figure out what you'd like for me to do on this.

From: Williams, Mary
Sent: Monday, September 10, 2007 8:44 AM
To: Morris, James; Hessee, Megan; Morris, James
Subject: FW: Unbundling status

I would like this in a table format - can provide less detail on where we are for (B)(4) (B)(7)(e) and more for (B)(4) (B)(7)(e) Also where is (B)(4) (B)(7)(e)?

From: Ernest, Mike
Sent: Monday, September 10, 2007 8:13 AM
To: Williams, Mary
Subject: Unbundling status

Mary

Here's where we stand on unbundling fees in the San Juan Basin:

Enterprise Chaco Plant system

The State of New Mexico developed system schematic diagrams which represent a (B)(4) (B)(7)(e) environment where natural gas is drawn to the (B)(4) plant by compression facilities at the field side of the plant inlet. Attached to this

(B)(7)(e)

Williams Manzanares System

The State of (B)(4) developed system schematic diagrams which represent a ' (B)(4) environment where natural gas is :o the Milagro treatment plant. There are several branches in this system that originate in different production areas. The different areas produce natural gas of differing qualities with the main difference being CO2 content. The State of New Mexico formally requested maps and other data to help distinguish the characteristics of the various branches of Manzanares system but nothing has been provided by Williams. Williams has provided their annual cost breakdowns for the ratio of costs between treating and gathering in the Manzanares/Milagro facilities and between processing and gathering in the Ignacio/San Juan facilities.

(B)(4) (B)(7)(e)

This office has extracted information concerning Williams San Juan Basin assets through the review of data from other agencies. The Securities and Exchange Commission (SEC) received reports from Williams concerning the change in ownership of their assets in the San Juan Basin. These reports detailed the processing, treating, compression and measurement facilities in the Four Corners area. This list was current in the spring of 2004. The New Mexico Environment Department has on-line data which details specific equipment at each facility mentioned in the Williams SEC report. Equipment listed includes compressors, dehydrators and petroleum product tanks. Bureau of Land Management (BLM)

(B)(7)(e)

MMS files include submittals by Williams for processing and transportation allowances related to Indian royalties. These submittals appear to be incomplete as the base document of the Form MMS-4109 and Form MMS-4295 are not in the files. These base documents include a breakdown of the allowances by agreement/lease number. The various schedules meant to support the base documents are present and include data for depreciation, overhead expense and other charges. (B)(7)(e)

TEPPCO Val Verde system

There has been a basic review of the files. More information will be provided after this meeting. Geoffery Gibson and Virginia Temmer are involved with this meeting. I have been invited and plan to attend.

Bear Paw system

I spoke briefly with Meagan concerning this project. I don't know the status of this project.

Let me know if you need any clarification of this information

Mike

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Rev 2

Mary

Here's where we stand on unbundling fees:

Enterprise Chaco Plant system

Plant Tour
The State of New Mexico and MMS personnel toured the Enterprise Chaco gas processing plant in April 2007.

System Study and MMS Guidance
The State of New Mexico developed the system study of the Chaco plant and a request for MMS guidance in answering questions concerning the treatment of transportation and processing costs for deductible allowances. The MMS response based on the 'Devon Decision' was returned in August 2007.

Request for Information
The State of New Mexico is preparing a Request For Information letter to be presented to Enterprise. The request asks for a breakdown of transportation costs ~~to~~ including an allocation of their fees to various categories including dehydration, gathering, compression and gas product extraction. The MMS is reviewing this letter with the possibility of adding generic forms modeled after the Form MMS-4109 and Form MMS-4395 for more detailed reporting of cost allocations.

Williams Manzanares System

Plant tour
The State of New Mexico and MMS personnel toured the Williams' Manzanares transmission system and Milagro gas treatment plant in July 2007.

System Study and MMS Guidance
The State of New Mexico developed the system study of the Williams' facilities and a request for MMS guidance in answering questions concerning the treatment of transportation and processing costs for deductible allowances. The MMS response based on the 'Devon Decision' is being developed. It should be ~~was~~ returned to the State of New Mexico in September 2007.

Request for Information
The State of New Mexico delivered a Request For Information letter to Williams in May 2007. The request asks for a breakdown of transportation costs to including an allocation of their fees to various categories including dehydration, gathering, compression and gas product extraction.

The MMS Office of Enforcement has indicated it will assist in the obtaining the information from Williams. Williams has provided their annual cost breakdowns for the ratio of costs between treating and gathering in the Manzanares/Milagro facilities and between processing and gathering in the Ignacio/San Juan facilities.

Other Developments
FEDCAM received information from Williams concerning adjustments to allowances for transportation and processing in the Manzanares/Milagro system. Williams reduced the amount of their allowances [redacted] (B)(4) and the mainline maximum threshold of 2% (B)(4)

(B)(7)(e) (B)(4) system

Plant tour
The State of New Mexico, MMS and BLM personnel will tour the TEPPCO Val Verde gas processing plant in October or November 2007.

System Study and MMS Guidance
The Office of Enforcement is involved in (B)(7)(e) (B)(4)

Bear Paw Grasslands system

Plant tour
The State of North Dakota requested a tour of the (B)(7)(e) (B)(4) plant for September 2007. MMS and BLM personnel will attend with the State of North Dakota.

System Study
The State of North Dakota has requested information concerning plant schematics, gas properties, volumes, fee structure, compression, pricing, etc.

Other Developments
The MMS Office of Enforcement has joined with MMS FEDCAM and the State of North Dakota in (B)(4) (B)(7)(e)

~~I spoke briefly with Meagan concerning this project. I don't know the status of this project.~~

Let me know if you need any clarification of this information

Mike

Ernest, Mike

From: Riemer, Dan [dfriemer@marathonoil.com]
Sent: Wednesday, June 18, 2008 1:53 PM
To: dtdeal@cox.net
Cc: Christnacht, Peter; Williams, Mary; Ernest, Mike
Subject: Action Items

Dave et al - as promised in the June 5th meeting. dan

SAP Marketing Free Deductions (same 10 options for Gas and NGL):
1. Compression
2. Dehydration
3. Processing / Treating
4. Gathering
5. Transp / Multi Fee
6. Total Transp / Royalty
7. Fuel
8. Service Fee Mkt
9. Service Fee Acctg
10. Other

Definitions:
1. Marketable Condition
2. Boosting
3. List of Allowable Processing Costs
4. List of Non-Allowable Processing Costs because they are incidental to marketing
5. Beneficial Use Gas - i.e. lease operations, transportation operations, plant operations... etc.

Principles:
1. Gross Proceeds
2. Deductions for actual reasonable transportation costs and actual reasonable processing costs
3. One time obligation to place production in marketable condition
4. Lessee obligation to market at no cost to lessor.

Unbundling Fees for Transportation and Processing Allowances

MMS is investigating how to unbundle fees charged to producers for years. The progressive use of bundled fees can be traced by reviewing gas purchase and processing agreements and the revisions to those contracts since the late 1990's. Fee breakdowns listed by some transporters and processors includes gathering, compression, field dehydration, plant dehydration, plant extraction, field fuel and plant fuel categories. Others now list three categories to cover comparable services; gathering and processing, field fuel and plant fuel.

(B)(5)
(B)(7)(e)

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(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

"Highly Textured" quote of D. Diehl at in Re: Conversations to this point

Interim Report of Subcommittee on Oil & Gas Valuation

Royalty Policy Committee Meeting
September 18, 2008

15 minutes

Interim Report

4-26

Dave D. presents

Subcommittee on Royalty Management Report
Recommendation 426

- At January 2008 RPC meeting, the O&G Subcommittee was directed to take up Recommendation 426: By the end of FY 2008 publish proposed revisions to gas valuation regulations and guidelines to address cost-bundling.
- For *gas valuation rulemaking*, MMS directed to consider anew use of indexing for valuation of non-arm's length transactions in lieu of existing benchmarks.
- For *cost bundling guidance*, while transportation costs and gas processing costs are allowable deductions, service providers do not generally separate deductible costs and non-deductible costs, which greatly confounds MMS review of transportation and processing allowances.
- RPC O&G Subcommittee Recommendation decided to first focus on the bundling of costs by service providers before again addressing gas valuation in advance of a Federal rulemaking effort.

2

MRM's Perspective

- Non-deductible costs from royalties include the cost of placing production into marketable condition, gathering, and marketing.
- However, placing the gas in marketable condition and gathering are situation specific and do not allow a bright line test applicable in all circumstances.

3

• Deductible costs

MMS Unbundling Project

- Apart from the Subcommittee, MMS is undertaking studies on several gas systems that will attempt to break out charges into deductible and nondeductible costs.
- MMS has been meeting with service providers to discuss obtaining information that would allow cost allocation for services that are consistent with MMS regulations and guidance.
- MRM has provided updates to the Subcommittee on its cost unbundling project and the direction its efforts are taking.

4

Subcommittee on Oil & Gas Valuation Efforts

- Subcommittee participants include representatives from trade groups, states, industry and the Indian community.
- Since January, Subcommittee has had 4 meetings, all directed at cost unbundling.
- While there is general agreement among participants that the complexity and uncertainties of cost unbundling are unsatisfactory, no consensus has yet been reached on a better approach.

5

Approaches to Cost Unbundling

Three concepts have emerged:

- **Standard Deduction:** for use on each system that will require analyzing the cost structure of engineering and equipment. Would apply to all payors.
- **Itemized Deductions:** based on templates provided by MMS (would likely require renegotiation of contracts with service providers).
- **Percentage of Commodity Price:** (could contain a cap like the Indian Gas Rule).

6

Pros and Cons of Each Approach

	Pros	Cons
Standard Deduction	• Early certainty • Administrative simplicity	• Less precision than actual costs • Initial effort MMS would be great
Itemized Deductions	• Potential for actual costs to be deducted	• Does not provide early certainty • Remains burdensome for all
Percentage of Proceeds	• Administrative simplicity • Early certainty • Recognizes that change in value affects costs • Less initial effort than standard deduction	• Less precision than actual costs

7

06 of Consd.

Not A Contract

Unresolved Questions on Standard Deduction Approach

- Opt-out possible if costs are clearly unbundled?
- Established on an area-wide or system basis?
- Are standard deductions equally feasible for transportation and processing?
- How often would a standard deduction be adjusted?
- Applicable to arm's length and non-arm's length transactions?

8

Future Subcommittee Activity

- With the Bush Administration nearing an end, no rulemaking will begin until 2009.
- In the meantime, the Subcommittee will continue to work with MRM to explore approaches to the cost-bundling problem.
- Even if no consensus can be reached, the Subcommittee can assist the MRM by characterizing the cost-unbundling issue, identifying alternatives and isolating relevant factors for decision making.
- The Subcommittee intends to provide recommendations to the RPC and MRM early in the next Administration, and prior to formation of an MRM gas valuation regulation writing team.

9

Address Block

Dear Reporter:

The Mineral Management Service (MMS) provides this letter to further clarify situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas. Please refer to the Dear Reporter letter issued on October 4, 2005 concerning coalbed methane production from all Federal and Indian leases. This clarification letter applies to all natural gas production from Federal and Indian leases.

Answers to common questions on what is allowable or not allowable are provided below. Please note that the answers are based on guidance provided by the MMS' decision "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003, (the Devon decision) which was upheld by the United States District Court for the District of Columbia on August 23, 2007. Excerpts from the Devon decision are referenced in MMS's response following the questions.

1. **Is typical field compression allowed?**

   No. The costs related to field compression are considered costs to put production in marketable condition. See *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

2. **Is compression for transportation purposes allowed?**
   In some cases. At the point production meets market condition for compression additional compression is considered a transportation function and is allowed.

3. **Is typical field dehydration allowed?**

   No. The costs related to field dehydration are considered costs to put production in marketable condition. See *J-W Operating Co.*, 159 IBLA 1 (2003) and *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

4. **Are compressors at the inlet of a processing plant allowed?**

   No. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel*, 903 F.3d 784 (10th Cir. 1990).

5. **Is plant dehydration allowed**?

The dehydration costs to remove moisture below marketable condition, expressed as delivery condition in sales or transportation contracts, to that necessary for processing would be allowed. See *Exxon Corp.*, 118 IBLA 221, 235, 236 (1991).

The circumstances in this case found the marketable condition concerning water content as set in the sales contract was 500 times the amount necessitated by the manufacturing process. The costs to achieve that lower level from the marketable condition level is deductible as a processing allowance limited to 2/3's of the value of all products except methane. *Id. 257.*

6. **Are the residue compressors at the tailgate of a processing plant allowed**?

No. The processed gas rule has a provision prohibiting the deduction of the costs of boosting residue gas at the gas processing plant.
See 30 CFR § 202.151(b) (1988-present).

BACKGROUND

The terms of the Federal and Indian oil and gas leases in force since 1942 require lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment.

The principle established by the marketable condition rule and several judicial precedents including *The Texas Company*, California *Co.* v. *Udall*, and *Placid Oil Co.* - namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value - stood uncontested until the late 1980's.

The MMS has not allowed a deduction for costs to compress residue gas for delivery to a pipeline at the tailgate of a gas plant because of the marketable condition rule and the corresponding regulation specially disallowing deductions for the costs of boosting (compressing) residue gas. First codified in 30 CFR § 221.51(b) (1942-1981) and later in CFR § 206.106 (b) (1982-1987).

The Department rewrote its royalty valuation rules for oil and gas produced from Federal and Indian leases 53 Fed. Reg. 1230 (January 15, 1988) (gas valuation rule). The 1988 rules expressly continued and reaffirmed the marketable condition rule. An express definition of "marketable condition" was added in 30 CFR § 206.151 (1982-Present):

> *Marketable condition* means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

The above provisions remain in force for Federal leases today.

The Devon decision addressed the continuation of the non-deductibility of compression costs of residue gas at a gas processing plant in the 1988 rules and referred to 30 CFR § 202.151(b) (1988-present).

Other decisions that address marketable condition:

Shoshone & Arapahoe Tribes v. Hodel, 903 F.3d 784 (10th Cir. 1990)

> Disallowed the cost of compressors located at the inlet of a gas processing plant due to it being considered a marketing function. The increase in gas flow pressure was necessary to pass through the pipeline and ultimately to the purchaser of the gas, a marketing function.

R.E. Yarbrough & Co., 122 IBLA 217 (1992)

> The IBLA held that compression, dehydration, and gathering costs were necessary to put the gas into marketable condition "for delivery to the pipeline buyer" and that Yarbrough must pay royalties on a value not reduced by these costs.

J-W Operating Co., 159 IBLA 1 (2003)

> An affiliated gathering system compressed, dehydrated, and gathered gas produced from Federal onshore leases. The affiliate purchased some of the gas and reduced the purchase price by a specified amount for the costs of those functions. The MMS Associate Director's decision conceded that a portion of those fees related to the movement of production beyond the BLM-approved point of measurement at the lease meter were properly attributable to transportation . . .
>
> The IBLA further held "that the costs of dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible".

Exxon Corp., 118 IBLA 221 (1991)

The IBLA allowed Exxon to deduct the cost of unusual dehydration undertaken as part of moving the raw gas stream to the processing plant. It reasoned had the dehydration been performed as part of processing the gas at the processing plant instead of a field facility the cost would be deductible as a processing cost. This unusual dehydration was to a level of "0.01 lbs. water/mcf" a very large amount below the level set by the sales contract. The reasoning continued the extreme level of dehydration was "necessitated by the manufacturing process".

Additional References

Discussion of the Amoco Vastar case concerning CO2 and the Wexpro case concerning beneficial use will be included.

What must I do?

A producer must put gas into marketable condition at no cost to the lessor.

The producer should determine the marketable condition of their production by determining into which market or markets they sell the production and what qualities and conditions the production must meet at delivery. It is recommended this determination be conducted by the producer but the MMS is willing to assist in achieving this determination.

A producer must pay royalties on the value of production sold or removed from the lease.

The only allowable deductions from gross proceeds accruing to the lessee are for transportation expenses and certain processing activities in the case of wet gas. Allowable deductions are considered those costs that are incurred after the natural gas production has reached marketable condition.

In situations where fees to transport or place production into marketable condition are charged against payment to the producer these reductions must be added back to the payment amount to determine gross proceeds for reporting on the Form MMS-2014. Allowable deductions from gross proceeds must be determined and reported as transportation allowances or processing allowances on the Form MMS-2014.

In situations where fees are charged in a bundled manner (one fee covers many different and distinct services) the producer should contact the transporter and/or processor to obtain a breakout of costs so allowable and non-allowable costs can be determined. It is recommended this determination be conducted by the producer but the MMS is willing to assist in achieving this determination.

If you find that calculations in past reporting periods are not accurate in accordance with this guidance, you must recalculate and file corrected Form MMS-2014s for all affected periods.

Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

BACKGROUND AND FACTS FOR THE DEVON DECISION
THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS

(B)(4)

(B)(5)
(B)(7)(e)

(B)(5)
(B)(7)(e)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

SEP 28 2007

Mr. Jack Lougee
State of New Mexico
Taxation and Revenue Department
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

MS392B2

Dear Mr. Lougee:

The Mineral Management Service (MMS) provides this letter in response to The State of New Mexico's (State) request for clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas. Answers to the questions in the State above referenced request are provided below. Please note that the answers are based on guidance provided by the MMS' decision "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003, (the Devon decision). The MMS responses are based on the data provided with the State request of May 7, 2007 (Enclosure). Excerpts from the Devon decision are referenced in MMS's response following the questions. These include citations from the Tenth Circuit Court (10th Cir.) and the Interior Board of Land Appeals (IBLA).

1. **Is typical field compression allowed?**

   No. The costs related to field compression are considered costs to put production in marketable condition. See *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

2. **Is typical field dehydration allowed?**

   No. The costs related to field dehydration are considered costs to put production in marketable condition. See *J-W Operating Co.*, 159 IBLA 1 (2003) and *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

3. **Are the C1 & C2 compressors at the inlet to the Chaco plant allowed?**

   No. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel,* 903 F.3d 784 (10th Cir. 1990).

TAKE PRIDE IN AMERICA

4. **Are the A & B compressors at the Chaco plant allowed**?

No. The A & B compressors are considered compressors at the inlet of the Chaco plant. The transfer on title from field gas inlet to plant gas occurs after glycol treating unit which is after the A & B compressors. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel,* 903 F.3d 784 (10th Cir. 1990).

Due to changes in the A & B compressors at the Chaco plant from gas fired to electrical motor-driven units are the electrical charges allowed? No, for the same reasoning as the above paragraph.

5. **Is the plant dehydration allowed**?

The dehydration costs to remove moisture from the marketable condition point of 7 lbs/MMcf to that necessary for processing would be allowed. See *Exxon Corp.*, 118 IBLA 221 (1991).

In the case of the Chaco plant, this would be the plant dehydration process immediately preceding the Cryogenic trains and after the Glycol treating units. There is a physical meter between these two areas that serves as the processing demarcation point.

6. **Are the residue compressors after the Cryo plant allowed**?

No. The processed gas rule has a provision prohibiting the deduction of the costs of boosting residue gas at the gas processing plant.
See 30 CFR § 202.151(b) (1988-present).

A. The 1942-1987 Rules and Judicial Precedents

The terms of the Federal and Indian oil and gas leases in force since 1942 requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment. This was originally addressed in 30 CFR § 221.31 (1942–1981) and recodified as 43 CFR § 3162.7-1 (1942-1982).

> (a) The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land.

The principle established by the marketable condition rule and several judicial precedents including *The Texas Company,* California *Co.* v. *Udall,* and *PIacid Oil Co.* - namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value - stood uncontested until the late 1980's.

The consideration of gas processing plants that process and compress residue gas for delivery to a pipeline at the tailgate of the plant began in 1942. The MMS has not allowed a deduction for those compression costs because of the marketable condition rule and the corresponding regulation specially disallowing deductions for the costs of boosting (compressing) residue gas. First codified in 30 CFR § 221.51(b) (1942-1981) and later in CFR § 206.106 (b) (1982-1987).

B. The 1988 Rules

The Department rewrote its royalty valuation rules for oil and gas produced from Federal and Indian leases 53 Fed. Reg. 1230 (January 15, 1988) (gas valuation rule). The 1988 rules expressly continued and reaffirmed the marketable condition rule. An express definition of "marketable condition" was added in 30 CFR § 206.151 (1982-Present):

> *Marketable condition* means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

These provisions, with changes not relevant here, remain in force for Federal leases today.

Continuing with quotes directly from the Devon decision:

> "In short, the 1988 rules continued and reinforced the earlier principles and precedents regarding the lessee's obligation to put production into marketable condition. The sole exception was the modification regarding what constitutes "gathering" under the new definition. Requirements regarding compression, dehydration, and sweetening continued without change in the 1988 rules".

The Devon decision addressed the continuation of the non-deductibility of compression costs of residue gas at a gas processing plant in the 1988 rules and referred to 30 CFR § 202.151(b) (1988-present).

C. Applicable Case Precedents after 1988

Shoshone & Arapahoe Tribes v. Hodel, 903 F.3d 784 (10th Cir. 1990)

> Disallowed the cost of compressors located at the inlet of a gas processing plant due to it being considered a marketing function. The increase in gas flow pressure was necessary to pass through the pipeline and ultimately to the purchaser of the gas, a marketing function.

R.E. Yarbrough & Co., 122 IBLA 217 (1992)

> The IBLA held that compression, dehydration, and gathering costs were necessary to put the gas into marketable condition "for delivery to the pipeline buyer" and that Yarbrough must pay royalties on a value not reduced by these costs.

J-W Operating Co., 159 IBLA 1 (2003)

> An affiliated gathering system compressed, dehydrated, and gathered gas produced from Federal onshore leases. The affiliate purchased some of the gas and reduced the purchase price by a specified amount for the costs of those functions. The MMS Associate Director's decision conceded that a portion of those fees related to the movement of production beyond the BLM-approved point of measurement at the lease meter were properly attributable to transportation . . .
>
> The IBLA further held "that the costs of dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible".

Exxon Corp., 118 IBLA 221 (1991)

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> The IBLA allowed Exxon to deduct the cost of unusual dehydration undertaken as part of moving the raw gas stream to the processing plant. It reasoned had the dehydration been performed as part of processing the gas at the processing plant instead of a field facility the cost would be deductible as a processing cost. This unusual dehydration was to a level of "0.01 lbs. water/mcf" a very large amount below the level set by the sales contract. The reasoning continued the extreme level of dehydration was "necessitated by the manufacturing process".

Allowances for transportation, processing and dehydration required for processing will be deductible. The MMS noted a couple of clarification questions on the Enclosure. Please provide MMS another copy if any changes are made. If you have any additional questions please contact Mr. Michael Ernest at (303) 231-3747.

Sincerely,

Mary A. Williams

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

Ernest, Mike

From: Ernest, Mike
Sent: Monday, October 01, 2007 9:58 AM
To: 'Lougee, Jack R., TRD'
Cc: Severson, Valdean
Subject: Guidance Letter on it's way

Jack

The guidance letter concerning your questions about Enterprise is on the way. Please note the MMS revised attachment MUST be used with this letter.

I look forward to the comments from Enterprise concerning this information.

All my best,

Mike

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient. you are hereby notified that any dissemination, distribution. or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

Ernest, Mike

From: Ernest, Mike
Sent: Thursday, September 20, 2007 11:07 AM
To: Maberry, Maryann
Cc: 'Lougee, Jack R., TRD'
Subject: Enterprise determination
Attachments: E - Enterprise System Ernest revisions.doc

Maryann

I'm finalizing the revisions to our response to the Enterprise questions from your office. Mary Williams and I would like to see the revisions you have to the attached document. The original *E - Enterprise System* document does not match the responses we present. Let me know what changes I can add to create a revised *E - Enterprise System* document acceptable for you and your office.

Of course, this letter has become a timely issue. I promised Valdean it would be completed by tomorrow.

Thanks

Mike

From: Ernest, Mike
Sent: Tuesday, September 11, 2007 3:19 PM
To: Maberry, Maryann
Cc: 'Lougee, Jack R., TRD'; Williams, Mary
Subject: RE: Enterprise determination

Maryann

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

Also, I expect to forward text for a side letter requesting data similar to the data that is required for Form MMS-4109 and Form MMS-4295. You will get this next week.

I'm studying the table you designed for the Williams Manzanares system. I like it but I'm thinking of their system as I'm very sure the than the others. I'll think about how those differences can be displayed in your diagrams/tables with the least amount of change. I see this format as very useful and descriptive and I'd like to continue using it as we work on other systems.

Thanks for all,

Mike

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]

Sent: Monday, September 10, 2007 8:37 AM
To: Ernest, Mike
Subject: FW: Enterprise determination

Attached is a copy of the draft letter to Enterprise for information to unbundle the costs. We would like to attach the MMS determination letter with the information request. Is there any problem with that?

Maryann M
827-9818

From: Williams, Mary [mailto:Mary.Williams@mms.gov]
Sent: Monday, September 10, 2007 7:26 AM
To: Ernest, Mike
Cc: maberry, maryann, TRD
Subject: FW: Enterprise determination

Mike can you assist Maryann - thanks.

From: maberry, maryann, TRD [mailto:maryann.maberry@state.nm.us]
Sent: Friday, September 07, 2007 3:29 PM
To: Williams, Mary
Subject: Enterprise determination

Jack requested I check with you about including the MMS determination letter in with my information request to Enterprise to obtain information to unbundle fees into allowed and not allowed costs.

Maryann M

Maryann Maberry
205 Federal Royalty Auditor
NM Oil & Gas Bureau
Phone: (505) 827-9818
Fax: (505) 827-9888

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the intended recipient, please contact the sender and destroy all copies of this message. -- This email has been scanned by the Sybari - Antigen Email System.

Ernest, Mike

From: Severson, Valdean H., TRD [valdean.severson@state.nm.us]
Sent: Monday, May 21, 2007 2:06 PM
To: Morris, James
Cc: Ernest, Mike; Lougee, Jack R., TRD; Williams, Mary
Subject: RE: Enterprise Questions

We would like a formalized response from the MMS as to the answer to the questions and the statutory basis for the answer so both items can be used in issue letters and demand orders. We think this is appropriate from a federal perspective.

Thanks,
Valdean

From: Morris, James [mailto:James.Morris@mms.gov]
Sent: Monday, May 21, 2007 11:20 AM
To: Severson, Valdean H., TRD
Cc: Ernest, Mike
Subject: FW: Enterprise Questions

I left you a voice message about this last week. Did you have any questions?

From: Price, John L.
Sent: Wednesday, May 16, 2007 8:33 AM
To: Morris, James
Subject: RE: Enterprise Questions

I have not. You should.

From: Morris, James
Sent: Wednesday, May 16, 2007 8:30 AM
To: Price, John L.
Subject: RE: Enterprise Questions

Have you told this to Valdean and Jack or should I?

From: Price, John L.
Sent: Wednesday, May 16, 2007 8:26 AM
To: Morris, James
Subject: RE: Enterprise Questions

(B)(7)(e)

From: Morris, James
Sent: Monday, May 14, 2007 7:43 AM
To: Price, John L.
Subject: FW: Enterprise Questions

Ernest, Mike

From: Morris, James
Sent: Monday, May 21, 2007 11:20 AM
To: Severson, Valdean
Cc: Ernest, Mike
Subject: FW: Enterprise Questions

I left you a voice message about this last week. Did you have any questions?

From: Price, John L.
Sent: Wednesday, May 16, 2007 8:33 AM
To: Morris, James
Subject: RE: Enterprise Questions

I have not. You should.

From: Morris, James
Sent: Wednesday, May 16, 2007 8:30 AM
To: Price, John L.
Subject: RE: Enterprise Questions

Have you told this to Valdean and Jack or should I?

From: Price, John L.
Sent: Wednesday, May 16, 2007 8:26 AM
To: Morris, James
Subject: RE: Enterprise Questions

(B)(7)(e)

From: Morris, James
Sent: Monday, May 14, 2007 7:43 AM
To: Price, John L.
Subject: FW: Enterprise Questions

Is my recollection of this correct?

From: Morris, James
Sent: Friday, May 11, 2007 3:39 PM
To: Bayani, Theresa Walsh
Cc: Ernest, Mike
Subject: FW: Enterprise Questions

(B)(7)(e)

Ernest, Mike

From: Morris, James
Sent: Monday, May 21, 2007 1:12 PM
To: Ernest, Mike
Subject: FW: Enterprise Questions

Would you call Jack. 505-827-9844

Also would you write something up.

Stop by and I'll give you what I think are the points to cover if you need them.

Thanks
Jim

-----Original Message-----
From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Monday, May 21, 2007 1:06 PM
To: Morris, James
Subject: RE: Enterprise Questions

Please call jack. We want something in writing with your basis..

Valdean

-----Original Message-----
From: "Morris, James"<James.Morris@mms.gov>
Sent: 5/21/07 11:20:00 AM
To: "Severson, Valdean"<valdean.severson@state.nm.us>
Cc: "Ernest, Mike"<Mike.Ernest@mms.gov>
Subject: FW: Enterprise Questions

I left you a voice message about this last week. Did you have any questions?

From: Price, John L.
Sent: Wednesday, May 16, 2007 8:33 AM
To: Morris, James
Subject: RE: Enterprise Questions

I have not. You should.

From: Morris, James
Sent: Wednesday, May 16, 2007 8:30 AM
To: Price, John L.
Subject: RE: Enterprise Questions

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From: Price, John L.
Sent: Wednesday, May 16, 2007 8:26 AM
To: Morris, James
Subject: RE: Enterprise Questions

(B)(7)(e)

From: Morris, James
Sent: Monday, May 14, 2007 7:43 AM
To: Price, John L.
Subject: FW: Enterprise Questions

Is my recollection of this correct?

From: Morris, James
Sent: Friday, May 11, 2007 3:39 PM
To: Bayani, Theresa Walsh
Cc: Ernest, Mike
Subject: FW: Enterprise Questions

I left the meeting thinking that John and Sarah (who I believe is familiar with these plants from our trip to Farmington last year) would come up with some answers. Neither John nor Sarah are in today I'll check with them on Monday.

From: Bayani, Theresa Walsh
Sent: Friday, May 11, 2007 3:29 PM
To: Morris, James
Subject: FW: Enterprise Questions

Who is Valdean referring to in MMS that is responding to the questions NM has on the last page? Is that you, Jim? thanks

Warning: This message is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged or confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail.

From: Severson, Valdean H., TRD [mailto:valdean.severson@state.nm.us]
Sent: Wednesday, May 09, 2007 2:29 PM
To: Williams, Mary; Morris, James; Bayani, Theresa Walsh
Subject: FW: Enterprise Questions

FYI- Discussion held with John Price, Mike Ernest and Jim Morris on Tuesday May 9. According to John, OE will discuss with Sarah and the MMS

will respond to the questions New Mexico has on the last page. As I have stated before, (B)(7)(e)

Thanks,

Valdean

From: Lougee, Jack R., TRD
Sent: Monday, May 07, 2007 1:39 PM
To: Severson, Valdean H., TRD
Subject: FW: Enterprise Questions

From: maberry, maryann, TRD
Sent: Monday, May 07, 2007 11:54 AM
To: john.l.price@mms.gov; Ernest, Mike
Cc: Lougee, Jack R., TRD; Martinez, Lena M., TRD; Linda.Hernandez@mms.gov
Subject: Enterprise Questions

Attached is a draft of the Enterprise system and questions we have in relationship to the Devon decision. We can discuss this during our teleconference on Tuesday, May 8, at 11:00am.

Maryann M

Maryann Maberry

205 Federal Royalty Auditor

NM Oil & Gas Bureau

Phone: (505) 827-9818

Fax: (505) 827-9888

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United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov

AUG 03 2007

SEC Sep 28, 2007
RoR
FINAL VERSION

Mr. Jack Lougee
State of New Mexico
Taxation and Revenue Department
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

Dear Mr. Lougee:

The Mineral Management Service (MMS) provides this letter in response to The State of New Mexico's (State) request for clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas. Answers to the questions in the State above referenced request are provided below. Please note that the answers are based on guidance provided by the MMS' decision "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003, (the Devon decision). The MMS responses are based on the data provided with the State request of May 7, 2007 (Enclosure). Excerpts from the Devon decision are referenced in MMS's response following the questions. These include citations from the Tenth Circuit Court (10th Cir.) and the Interior Board of Land Appeals (IBLA).

1. **Is typical field compression allowed?**

   No. The costs related to field compression are considered costs to put production in marketable condition. See *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

2. **Is typical field dehydration allowed?**

   No. The costs related to field dehydration are considered costs to put production in marketable condition. See *J-W Operating Co.*, 159 IBLA 1 (2003) and *R.E. Yarbrough & Co.*, 122 IBLA 217 (1992).

3. **Are the C1 & C2 compressors at the inlet to the Chaco plant allowed?**

(B)(4)
(B)(7)(e)

TAKE PRIDE IN AMERICA

4. **Are the A & B compressors at the Chaco plant allowed**?

(B)(4)
(B)(7)(e)

(B)(4)
(B)(7)(e)

(B)(7)(e)

(B)(7)(e)

A. The 1942-1987 Rules and Judicial Precedents

The terms of the Federal and Indian oil and gas leases in force since 1942 requires lessees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment. This was originally addressed in 30 CFR 221.31 and recodified as 43 CFR 3162.7-1.

> (a) The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land.

The principle established by the marketable condition rule and several judicial precedents including *The Texas Company,* California *Co.* v. *Udall,* and *Placid Oil Co.* - namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value - stood uncontested until the late 1980's.

B. The 1988 Rules

The Department rewrote its royalty valuation rules for oil and gas produced from Federal and Indian leases 53 Fed. Reg. 1230 (January 15, 1988) (gas valuation rule). The 1988 rules expressly continued and reaffirmed the marketable condition rule. An express definition of "marketable condition" was added in 30 C.F.R. 206.151:

> *Marketable condition* means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

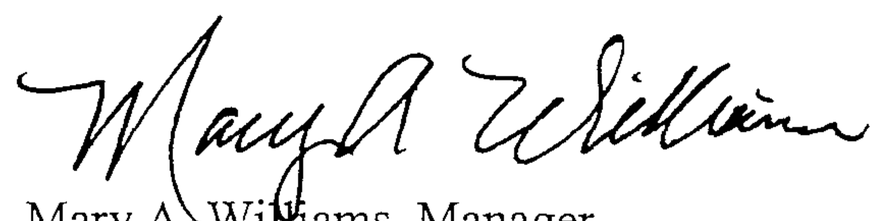
These provisions, with changes not relevant here, remain in force for Federal leases today.

Exxon Corp., 118 IBLA 221 (1991)

The IBLA allowed Exxon to deduct the cost of unusual dehydration undertaken as part of moving the raw gas stream to the processing plant. It reasoned had the dehydration been performed as part of processing the gas at the processing plant instead of a field facility the cost would be deductible as a processing cost. This unusual dehydration was to a level of "0.01 lbs. water/mcf" a very large amount below the level set by the sales contract. The reasoning continued the extreme level of dehydration was "necessitated by the manufacturing process".

Allowances for transportation, processing and dehydration required for processing will be deductible. The MMS noted a couple of clarification questions on the Enclosure. Please provide MMS another copy if any changes are made. If you have any additional questions please contact Mr. Michael Ernest at (303) 231-3747.

Sincerely,



Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 7/24/2007**
Reviewer/Date:
Work Paper Number: **E1**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
(B)(7)(e)

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Preparer/Date: **MAM 7/24/2007**
Reviewer/Date:
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New Mexico Oil & Gas Bureau
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Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 7/30/2007**
Reviewer/Date:
Work Paper Number: **E1**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

TYPICAL FIELD COMPRESSORS:

(B)(4)
(B)(7)(e)

Questions for MMS, based on the Devon decision:

1. Is typical field compression allowed?
2. Is typical field dehydration allowed?
3. Are the C1 & C2 compressors at the inlet to Chaco plant allowed?
4. Are the A & B compressors at Chaco plant allowed?
5. Is the plant dehydration allowed?
6. Are the residue compressors after the Cryo plant allowed?

Bulk File# _____

Preparer/Date: **MAM 7/24/2007**
Reviewer/Date:
Work Paper Number: **E1**

United States Departm

MINERALS MANAGEN
Minerals Revenue M
P.O. Box 251
Denver, Colorado 8
www.mrm.mm

Please confirm if questions are to be bold + underlined or not.

Mr. Jack Lougee
State of New Mexico
Taxation and Revenue Department
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

Fine by me. Bold & Underlined is a PUSH WAY & that is on the State of New Mexico's (State)

Dear Mr. Lougee:

The Mineral Management Service (MMS) provides this letter in response to ~~your~~ the State's request for clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas. Answers to the questions in ~~your~~ the State above referenced request are provided below. Please note that the answers are based on guidance provided by the MMS' decision "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003, (the Devon decision). ~~Our~~ the MMS responses are based on the data provided with ~~your~~ the State's request of May 7, 2007 (Enclosure). Excerpts from the Devon decision are referenced in ~~our~~ MMS's response following the questions. These include citations from the Tenth Circuit Court (10th Cir.) and the Interior Board of Land Appeals (IBLA).

1. Is typical field compression allowed? Bold + underline?

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3. Are the C1 & C2 compressors at the inlet to the Chaco plant allowed? *

   No. The cost of compression at the inlet of a gas processing plant is disallowed due to it being considered a marketing function. See *Shoshone & Arapahoe Tribes v. Hodel,* 903 F.3d 784 (10th Cir. 1990).

TAKE PRIDE IN AMERICA

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Exxon Corp., 118 IBLA 221 (1991)

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(B)(7)(e)

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s.

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Sincerely,

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management

Enclosure

June nn, 2007

Mr. Jack Lougee
205 Federal Royalty Audit Program
State of New Mexico
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

Re: Response to Enterprise Gathering System Work Paper E1 of May 7, 2007

Dear Mr. Jack Lougee:

The Mineral Management Service (MMS) provides this letter in response to your request for clarification of situations where Federal royalty payors may request deductions from their royalty obligations in the form of allowances for processing and/or transportation of natural gas. Answers to the questions posed in your above referenced letter may be found below. These answers are based on guidance provided by the MMS' decision concerning Devon Energy Corp.'s Request for Reconsideration of "Valuation Determination for Coalbed Methane Production from the Kitty, Spotted Horse, and Rough Draw Fields, Powder River Basin, Wyoming", dated October 9, 2003.

A. The 1942-1987 Rules and Judicial Precedents

The terms of the Federal and Indian oil and gas leases in force since 1942 requires leasees to put gas into marketable condition and to pay royalty on the value of the gas in marketable condition without deduction for the costs of treatment. This was originally addressed 30 CFR 221.31 and recodified as 43 CFR 3162.7-1.

> (a) The operator shall put into marketable condition, if economically feasible, all oil, other hydrocarbons, gas, and sulphur produced from the leased land.

The principle established by the marketable condition rule and several judicial precedents including *The Texas Company,* California *Co.* v. *Udall,* and *Placid Oil Co.* - namely, that the costs of compression, dehydration, gathering, and other functions necessary to condition the gas for delivery to the purchaser and to market it are not deductible in determining royalty value - stood uncontested until the late 1980's.

B. The 1988 Rules

The Department rewrote its royalty valuation rules for oil and gas produced from Federal and Indian leases. 53 Fed. Reg. 1230 (Jan.15, 1988) (gas valuation rule). The 1988 rules expressly continued and reaffirmed the marketable condition rule. An express definition of "marketable condition" was added in 30 C.F.R. 206.151 :

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The 1988 rule further added an express definition of the term "gathering" in section 206.151 as follows:

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These provisions, with changes not relevant here, remain in force for Federal leases today.

Continuing with quotes directly from the Devon decision:

> In short, the 1988 rules continued and reinforced the earlier principles and precedents regarding the lessee's obligation to put production into marketable condition. The sole exception was the modification regarding what constitutes "gathering" under the new definition. Requirements regarding compression, dehydration, and sweetening continued without change in the 1988 rules.

C. Applicable Case Precedents after 1988

Shoshone & Arapahoe Tribes v. Hodel, 903 F.3d 784 (10th Cir. 1990)

Disallowed the cost of compression at the inlet of a gas processing plant due to it being considered a marketing function. The increase in gas flow pressure was necessary to pass through the pipeline and ultimately to the purchaser of the gas.

R.E. Yarbrough & Co., 122 IBLA 217 (1992)

The IBLA held that compression, dehydration, and gathering costs were necessary to put the gas into marketable condition "for delivery to the pipeline buyer" and that Yarbrough must pay royalties on a value not reduced by these costs.

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An affiliated gathering system compressed, dehydrated, and gathered gas produced from Federal onshore leases. The affiliate purchased some of the gas and reduced the purchase price by a specified amount for the costs of those functions. The MMS Associate Director's decision "conceded that a portion of those fees related to the movement of production beyond the BLM-approved point of measurement at the lease meter were properly attributable to transportation...

The IBLA further held the costs of dehydration of gas to meet market specifications for water content and the compression of gas to the pressure required for entry into the buyer's pipeline are not deductible.

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(B)(5)
(B)(7)(e)

(B)(4)

(B)(4)

(B)(7)(e)

(B)(4)

(B)(4)

(B)(5)

(B)(7)(e)

(B)(4)

Sig block

June nn, 2007

Mr. Jack Lougee
205 Federal Royalty Audit Program
State of New Mexico
1200 S. St. Francis Drive
Santa Fe, New Mexico 87509

Re: Response to Enterprise Gathering System Work Paper E1 of May 7, 2007

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(B)(5)
(B)(7)(e)

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(B)(4)

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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
(B)(7)(e)

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Preparer/Date: **MAM 6/15/2007**
Reviewer/Date:
Work Paper Number: **E1**

New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

(B)(4)
(B)(7)(e)

Bulk File# _____

Preparer/Date: **MAM 6/15/2007**
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New Mexico Oil & Gas Bureau
205 Federal Royalty Audit Program
Cost Project
Project Number: 1138

ENTERPRISE GATHERING SYSTEM

INLET *OUTLET*

TYPICAL FIELD COMPRESSORS:

(B)(4)
(B)(7)(e)

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6. Are the residue compressors after the Cryo plant allowed?

Bulk File# _____

Preparer/Date: **MAM 6/15/2007**
Reviewer/Date:
Work Paper Number: **E1**

New Mexico
Taxation and Revenue Department

Bill Richardson
Governor

Rick Homans
Cabinet Secretary

STATE OF NEW MEXICO
Taxation and Revenue Department
An Equal Opportunity Employer
Oil & Gas Bureau
205 Federal Royalty Audit Program
1200 S. St. Francis Drive
Santa Fe, New Mexico 87504

DIVISIONS

Office of the Secretary
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(505) 827-0900
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(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 827-0354

November 21, 2008

Mary A. Williams, Manager
Federal Onshore Oil and Gas
Compliance and Asset Management
Denver Federal Center, Sixth and Kipling, Building 85
P.O. Box 25165-0165, MS 392B2
Denver, CO 80225

REQUEST FOR GUIDANCE

The State of New Mexico (State) requests clarification of situations where Federal royalty payors deduct from their royalty obligations allowances for processing and/or transportation of natural gas transported through the Manzanares Gathering System.

See Manzanares Gathering System Diagram for specific questions.

Respectfully,

Jack Lougee
Audit Supervisor
State New Mexico

RECEIVED
NOV 25 2008

Enclosure: Manzanares Gathering System diagram
Cc: Mike Ernest
Minerals Management Service
Denver Federal Center, Sixth and Kipling, Building 85
Box 25165, MS392B2
Denver, CO 80225

San Juan Basin Summary PC03, PC04 and PC39 for CY 2005

	Sales Code	Volume in MMBtus	Percentage of SalesCode	Percentage of Total
(B)(4)				
(B)(4)				
(B)(4)				
(B)(4)				
(B)(4)				
(B)(4)				
(B)(4)				
(B)(4)				
Grand Totals				
	(B)(4)	(B)(4)		
	Total			

THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS

INLET	OUTLET		WELLHEAD GATHERING TO FIRST COMPRESSION

(B)(4)
(B)(7)(e)

THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS

INLET OUTLET

(B)(4)
(B)(7)(e)

THUNDER CREEK AND BITTER CREEK GATHERING SYSTEMS

INLET OUTLET

(B)(4)
(B)(7)(e)

Note for Page One:

The third paragraph mentions line costs downstream from the CTM may be deducted.

In 30 CFR 206.157 (a)(1)(i) **Arms-length transportation contracts** it states:

.. the transportation allowance shall be the reasonable, actual costs incurred by the lessee for transporting the unprocessed gas, residue gas and/or gas plant products...

... Such allowances shall be subject to the provisions of paragraph (f) of this section...

30 CFR 206.157 (f) - Allowable costs in determining transportation allowances

This section provides a list including but not limited to a list of 10 expense items such as fees, charges and costs which cover expenses for moving gas to the purchaser. Two items to highlight are:

Item (7) Payments (either volumetric or in value) for actual or theoretical losses

Item (9) Supplemental costs for compression, dehydration, and the treatment of gas –

these 3 processes may not be involved in bringing the gas to market condition.

In 30 CFR 206.157 (b)(2) **Non-arms-length transportation contracts** it states:

The transportation allowance ...shall be based upon the lessee's actual costs for transportation during the reporting period, including operating and maintenance expenses, overhead and

EITHER depreciation **and** a return on undepreciated capital ... **OR** a cost equal to the initial depreciable investment in the transportation system multiplied by a rate of return ... (Standard and Poor's monthly average BBB rate factored by 1.3)

Note for Page Three:

The Court allowed the MTG compression as a transportation cost deductible from royalties. If the Buckshot Plant was located at or near the producing fields then the MTG compressor would not be needed. The MTG compressor's primary function, under the facts of this case, is transportation. The term "far away from the producing fields" was used (but not defined) to describe the location of the Buckshot Plant.

Under the same circumstances where the Buckshot Plant was located at or near the producing fields then the MTG compression would not be needed and the gas stream would reach market condition, in terms of compression, for the first time at the tailgate of the Buckshot Plant. Thus the costs of compression at this point would not be allowed. The Court mentioned that Devon could not have both instances of compression allowed as deductions from royalties.