



Federal Processed Gas Reporting

Yasmen Faied

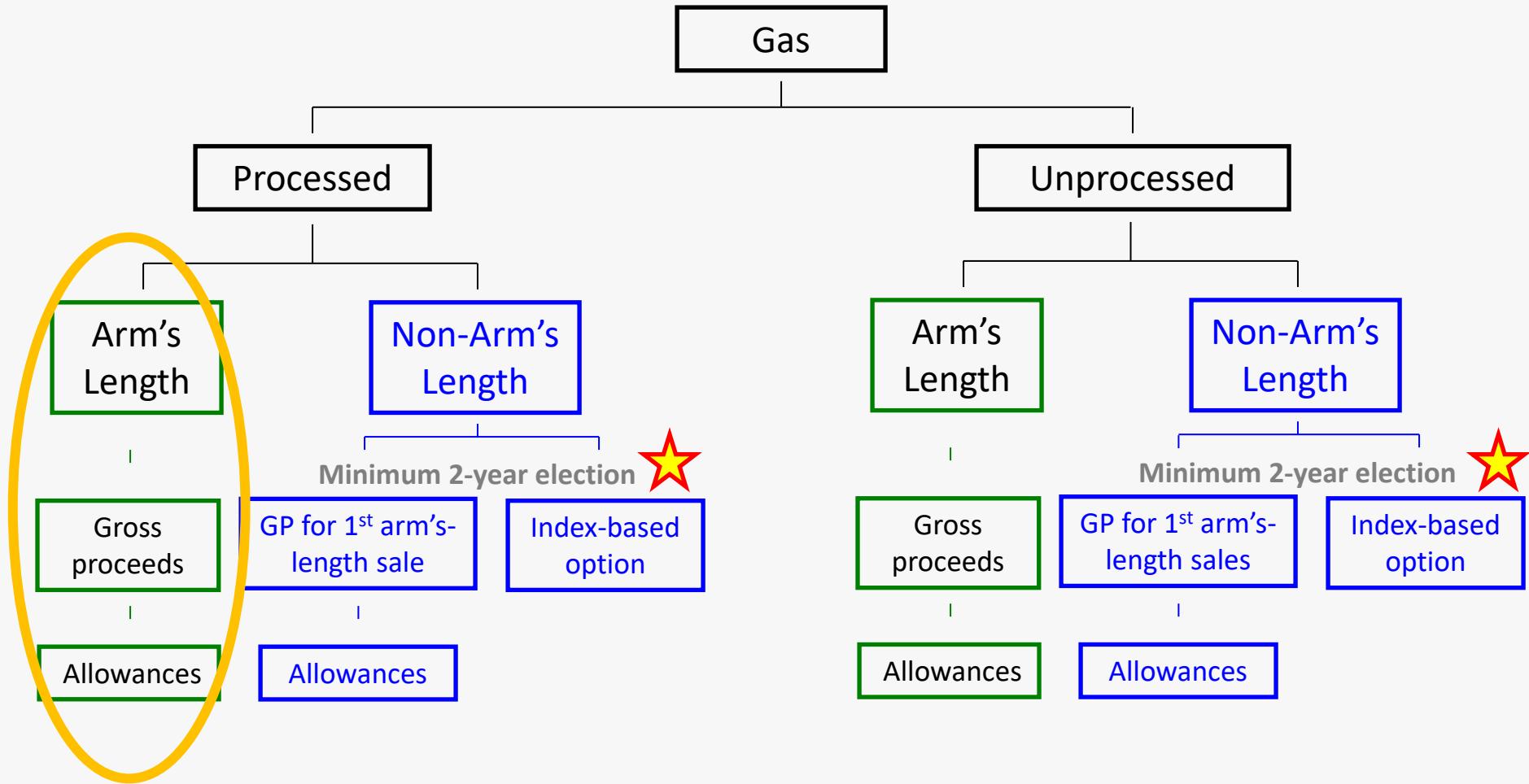
Jodie Peterson





This training does not provide legal advice and should not be construed as stating ONRR's legal interpretation or position. Rather, this communication serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. This guidance is based solely on the information provided and should only be used for the particular issue or question presented at the time of this communication. While this training is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Gas Valuation



Gas Basics

Unprocessed Gas

- Only valuing one commodity (wet gas) on a \$/Mcf or \$/MMBtu basis and one product code:
 - Unprocessed gas (PC 04) **or**
 - Coalbed methane (PC 39)

Processed Gas

- Valuing multiple commodities and multiple product codes:
 - Pipeline condensate (PC 05)
 - Pipeline fuel (PC 15)
 - Coalbed methane (PC 39)
 - Residue gas (PC 03)
 - NGLs (PC 07)
 - Possibly others (plant inlet scrubber, CO₂, sulfur, etc)

Regs: 30 CFR §§ 1206.141, 1206.142



Key Points

- You are valuing gas produced from a **federal** oil and gas lease on or after **January 1, 2017**.
- You are valuing your gas for royalty purposes based on the gross proceeds accruing to you or to your affiliate under an arm's-length contract under 30 CFR §1206.142.
- Your contract provides for payment based on the value of residue gas, NGLs, or other gas plant products (e.g. sulfur, carbon dioxide, etc.), regardless of where title transfers.

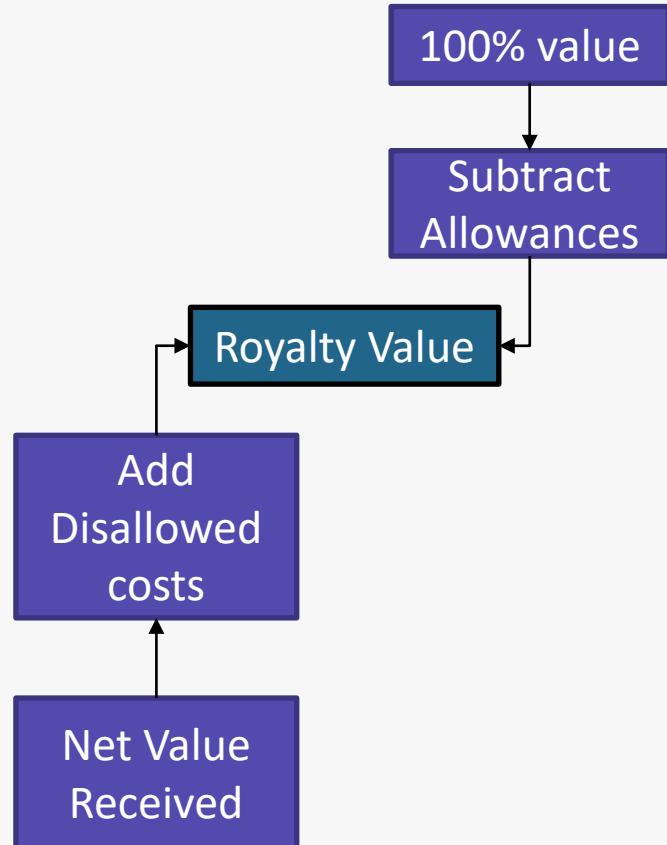


Scope Check

- This example is as all-encompassing as we can be without overcomplicating it.
- If you have questions specific to your situation, you can always email us at [royaltyvaluation@onrr.gov!](mailto:royaltyvaluation@onrr.gov)
- RV deals with the valuation aspects of reporting.
- Specific 2014 filing questions (backing and re-reporting lines, overrides, upfront edits, etc.) will be most accurately answered by your reporting contact: <https://www.onrr.gov/ReportPay/royalty-reporting.htm#contacts>
 - Adjustment Reason Code (ARC) 10 is the appropriate code for re-reporting lines to comply with the 2016 rule
 - Royalty relief questions can be answered by BLM or BSEE depending on your lease location.

Valuation Changes

- APOP contracts are now Processed Gas ARMS contracts
 - Used to be valued as unprocessed gas
 - Started with net value received, then added back disallowed costs
 - Now valued as processed gas
 - Start with 100% volume and value, then subtract allowances
 - Should get to the same number, just from two different “directions”



Sample Statement



PERCENT OF PROCEEDS STATEMENT

Recipient:

Production Date: March 2013
 Statement Date: April 23, 2013
 Accounting Date: Rate per MCF: 4.12035
 Run ID: 3,36137

Lease Information																																																																																																									
Settle ID	Payment ID	Lease Name	Facility Name	State	Contract ID	Operator Name/ID	Pressure Base																																																																																																		
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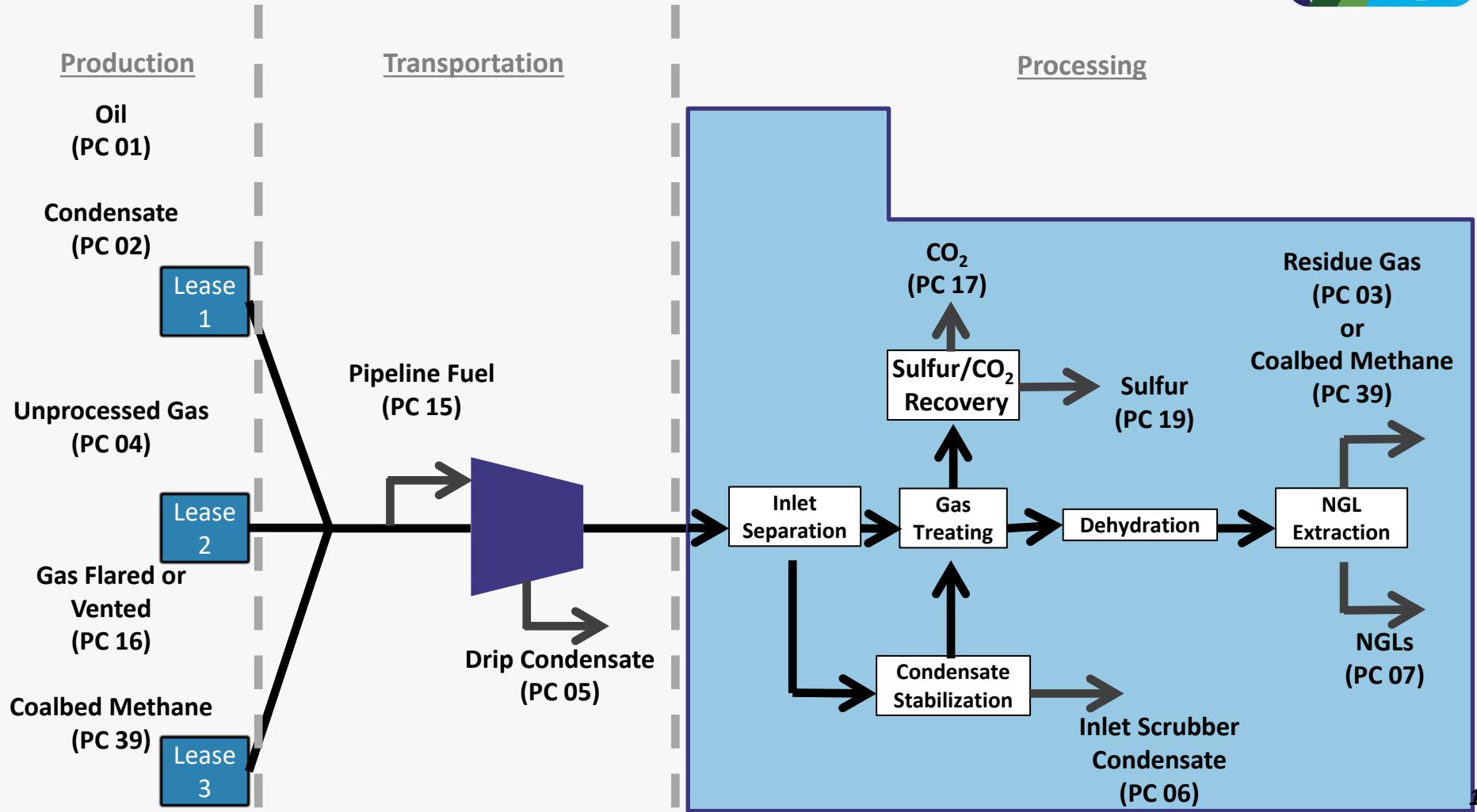


Product Codes

Product:	Location in Statement:
PC 03 Residue Gas	“Net Residue Mcf” (G) and “Net Residue MMbtu” (H) in the statement’s “Residue Settlement” section
PC 07 NGLs	“Allocated” NGLs (L) in the statement’s “Component Settlement” section
PC 15 Pipeline Fuel	“Contractual Field Deducts Mcf” (C) and “Contractual Field Deducts MMBtu” (D) in the statement’s “Wellhead Information” section

Form ONRR-2014

Common Product Codes



Assumptions for Discussion

1. This gas is transported, processed, and sold under an arm's-length contract.
2. The processor retains 15% of the residue gas and NGLs, 40% of which is allocable to processing and 60% of which is allocable to transportation
3. A pre-plant transportation Unbundling Cost Allocation (UCA) of 20%, which means that 20% of the pre-plant transportation costs (including pipeline fuel and value of the retained percent allocable to transportation) can be taken as part of a transportation allowance.



Assumptions for Discussion

5. A processing UCA of 40%, which means that 40% of the processing costs are allowable, including plant fuel.
6. The post-plant NGL transportation costs and the fractionation costs are 100% allowable.
7. No condensate is recovered along the pipeline or in the gas plant. You should check your statement or transportation invoice for condensate. If you have questions on how to value or report condensate, please contact royaltyvaluation@onrr.gov.

Assumptions for Discussion

7. The royalty rate is 12.5%.
8. The prices per gallon of NGL components shown on the example statement are reduced by \$0.12/gallon for transportation and fractionation (T&F); the processor deducted a post-plant NGL transportation fee of \$0.05/gallon and an NGL fractionation fee of \$0.07/gallon from the gross price. Here, we have provided the T&F fee; you may need to check your contract or other sources for the amount.

Unbundling

- What do we mean by a UCA?
 - Specific Transportation System/Gas Plant UCAs
 - ONRR has unbundled certain plants. To see if there is a specific UCA available for your plant, visit <https://www.onrr.gov/unbundling/index.htm>
 - Standardized UCAs
 - ONRR now provides simplified UCAs for certain gas plants and geographic locations at <https://www.onrr.gov/unbundling/offshore-uca.htm>
 - You can also go through the unbundling process and calculate your own UCAs
 - See <https://www.onrr.gov/unbundling/methodology.htm>
- If you do not wish to or cannot unbundle, you can opt to not take allowances.
- The UCAs in this example are assumed, and are for illustrative purposes only.
- Questions? Contact RV's unbundling group at onrrunbundling@onrr.gov



Product Code 03

Residue Gas

Step 1: Btu Factor

- Divide the net residue gas heat content (1,922.39 MMBtu) (**H**) by the volume of the net residue gas (1,697.81 Mcf) (**G**)

PC 03 Btu Factor (Step 1):

$$PC\ 03\ Btu\ factor = \frac{residue\ gas\ MMBtu}{net\ residue\ gas\ Mcf}$$

$$PC\ 03\ Btu\ factor = \frac{1,922.39\ MMBtu}{1,697.81\ Mcf}$$

$$PC\ 03\ Btu\ factor = 1.13228\ MMBtu/Mcf$$

Step 2: Disallowed Plant Fuel (Mcf)



- Identify the total plant fuel reported on the plant statement—here it is called “Contractual Allocated Fuel” and is 326.40 MMBtu (**F**)
- Determine the total plant fuel volume (Mcf)
 - Divide the contractual allocated fuel (326.40 MMBtu (**F**)) by the Btu factor (1.13228 MMBtu/Mcf)
 - The total plant fuel volume is 288.27 Mcf
 - Obtain the percent disallowed for processing
 - In this example, because the processing UCA is 40%, 60% of the plant fuel is disallowed (1 minus the 40 % UCA)

Step 2 Cont.

- Multiply the disallowed rate (60%) by the total plant fuel volume (288.27 Mcf)

PC 03 Disallowed Plant Fuel Volume (Mcf) (Step 2):

$$\text{Disallowed plant fuel Mcf} = \frac{\text{contractual allocated fuel MMBtu}}{\text{Btu factor}} \times \% \text{ disallowed}$$

$$\text{Disallowed plant fuel Mcf} = \frac{326.40 \text{ MMBtu}}{1.13228 \text{ MMBtu/Mcf}} \times 0.60$$

$$\text{Disallowed plant fuel Mcf} = 288.27 \text{ Mcf} \times 0.60$$

$$\text{Disallowed plant fuel Mcf} = 172.96 \text{ Mcf}$$

Step 3: Residue Gas Sales Volume



- Add the net residue gas volume from the plant statement (1,697.81 Mcf) **(G)** to the volume from Step 2 (172.96 Mcf)

PC 03 Residue Gas Sales Volume (Mcf) (Step 3):

$$PC\ 03\ Mcf = residue\ Mcf + disallowed\ plant\ fuel\ Mcf$$

$$PC\ 03\ Mcf = 1,697.81\ Mcf + 172.96\ Mcf$$

$$PC\ 03\ Mcf = 1,870.77\ Mcf$$

Step 4: Disallowed Plant Fuel (MMBtu)



- Identify the total plant fuel reported on the plant statement: Contractual Allocated Fuel (326.40 MMBtu) (F)
- Obtain the percent disallowed for processing
 - In this example, 60% of the plant fuel is disallowed (1 minus the 40% UCA)
- Multiply the disallowed rate (60%) by the total plant fuel reported on the plant statement (326.40 MMBtu) (F)
- The disallowed plant fuel is 195.84 MMBtu

Step 5: Residue Gas Sales MMBtu



- Add the net residue gas heat content (1,922.39 MMBtu) (H) to the heat content from Step 4 (195.84 MMBtu)

PC 03 Residue Gas Sales MMBtu (Steps 4-5):

$$PC\ 03\ MMBtu = residue\ MMBtu + (plant\ fuel\ MMBtu \times \% disallowed)$$

$$PC\ 03\ MMBtu = 1,922.39\ MMBtu + (326.40\ MMBtu \times 0.60)$$

$$PC\ 03\ MMBtu = 1,922.39\ MMBtu + 195.84\ MMBtu$$

$$PC\ 03\ MMBtu = 2,118.23\ MMBtu$$

Step 6: Residue Gas Sales Value



- Multiply the residue gas sales MMBtu determined in Step 5 (2,118.23 MMBtu) by the residue gas unit price (\$3.13905/MMBtu) (J)

PC 03 Residue Gas Sales Value (Step 6):

PC 03 sales value = residue sales MMBtu × residue unit price

PC 03 sales value = 2,118.23 MMBtu × \$3.13905/MMBtu

PC 03 sales value = \$6,649.23

Step 7: Royalty Value Prior to Allowances (RVPA)



- Multiply the residue gas sales value calculated under Step 6 (\$6,649.23) by the royalty rate (12.5%)

PC 03 Royalty Value Prior to Allowances (RVPA) (Step 7):

$$PC\ 03\ RVPA = \text{sales value} \times \text{royalty rate}$$

$$PC\ 03\ RVPA = \$6,649.23 \times 0.125$$

$$PC\ 03\ RVPA = \$831.15$$



2014 Line Thus Far

Form ONRR-2014 Royalty Report								
Prod Code	Sales Volume	Sales MMBtu	Sales Value	Sales Type Code	RVPA	Trans Allow	Proc Allow	RVLA
03	1870.77	2,118.23	\$6,649.23	ARMS	\$831.15			



Product Code 07

Natural Gas Liquids

Step 1: Gross volume-weighted-average price



- Locate the total value on the plant statement under the Component Settlement section (**N**) and divide by the settlement NGL gallons (**M**). NGL prices may not be reduced by any costs of placing the NGLs into marketable condition (30 CFR §1206.146)
- In order to calculate the **gross** volume-weighted-average price, add back the deducted T&F fee (\$0.12/gallon, given in assumptions)

PC 07 Gross Volume-Weighted-Average Price (Step 1):

$$\text{Gross volume-weighted-average price} = \left(\frac{\text{total component value}}{\text{settlement NGL gal}} \right) + \text{T\&F fee}$$

$$\text{Gross volume-weighted-average price} = \left(\frac{\$}{\text{ }} \right) + \$$$

$$\text{Gross volume-weighted-average price} = \$0.85182/$$

$$\text{Gross volume-weighted-average price} = \$0.97182/$$

Step 2: NGL Sales Value

- Locate the NGLs actually recovered by the plant on the plant statement under the Component Settlement section showing the “Allocated” amount (**L**). This is the NGL sales volume.
- Multiply the NGL sales volume (**L**) by the gross volume-weighted-average price (\$0.97182/gal)

PC 07 NGL Sales Value (Step 2):

PC 07 sales value

$= NGL \text{ sales volume} \times \text{gross volume-weighted-average price}$

$PC \text{ 07 sales value} = 6,903.59$

$PC \text{ 07 sales value} = \$6,709.05$

Step 3: Royalty Value Prior to Allowances (RVPA)



- Multiply the sales value from Step 2 (\$6,709.05) by the royalty rate (12.5%)

PC 07 Royalty Value Prior to Allowances (RVPA) (Step 3):

$$PC\ 07\ RVPA = Sales\ Value \times Royalty\ Rate$$

$$PC\ 07\ RVPA = \$6,709.05 \times 0.125$$

$$PC\ 07\ RVPA = \$838.63$$



2014 Lines Thus Far

Form ONRR-2014 Royalty Report								
Product Code	Sales Volume	Sales MMBtu	Sales Value	Sales Type Code	RVPA	Trans Allow	Proc Allow	RVLA
03	1870.77	2,118.23	\$6,649.23	ARMS	\$831.15			
07	6,903.59			ARMS				



Product Code 15

Pipeline Fuel

Step 1: Pipeline Fuel Sales Volume and Value



- Locate the “Contractual Field Deducts” MMBtu amount on the plant statement and report as a positive number (**D**). This is the pipeline fuel sales MMBtu.
 - Also locate the pipeline fuel sales volume of 129.75 Mcf (**C**).
- Multiply the pipeline fuel sales MMBtu (**D**) by the residue gas unit price (**J**)
 - Under 30 CFR §1206.142(e), If some of your gas is used, lost, unaccounted for, or retained as a fee under the terms of a sales or service agreement, that gas will be valued for royalty purposes using the same royalty valuation method for valuing the rest of the gas that you do sell.

PC 15 Pipeline Fuel Sales Value (Step 1):

$$PC\ 15\ Sales\ Value = Pipeline\ Fuel\ MMBtu \times Unit\ Price$$
$$PC\ 15\ Sales\ Value = 162.20$$
$$PC\ 15\ Sales\ Value = \$509.15$$

Step 2: Royalty Value Prior to Allowances (RVPA)



- Multiply the pipeline fuel sales value from Step 1 (\$509.15) by the royalty rate (12.5%)

PC 15 Royalty Value Prior to Allowances (RVPA) (Step 2):

$$PC\ 15\ RVPA = Sales\ Value \times Royalty\ Rate$$

$$PC\ 15\ RVPA = \$509.15 \times 0.125$$

$$PC\ 15\ RVPA = \$63.64$$

Note on Sales Type Code

- In this example, you value your residue gas using its first disposition, which is an arm's-length sales contract. As discussed in Step 1, you can value the pipeline fuel, under 30 CFR §1206.142(e), using the same method as the one for valuing the residue gas. In this case, you should use Sales Type Code ARMS, which describes the value you are reporting, even though you never sell the pipeline fuel.

Note on Sales Type Code

Federal Gas No-Sales Situations & Sales Type Codes

<p>Unprocessed gas used, lost, unaccounted-for, or retained as a fee under a service contract (e.g. pipeline fuel)</p>	<ul style="list-style-type: none"> • Value the gas in the same manner as the rest of the gas that you do sell • Use the same Sales Type Code as you are using for the rest of your gas
<p>Gas dispositions without a written contract or gas that is not sold but which is royalty-bearing (e.g. vented or flared gas)</p>	<ul style="list-style-type: none"> • Value the gas using the index-based option or the default provision (propose a method to ONRR) • Use Sales Type Code OINX for index or AG(X) for ONRR-approved methods (ONRR assigns on case-by-case basis)

Regs: 30 CFR §§ 1206.141(d),(e); 1206.142(e)(f)



2014 Lines Thus Far

Form ONRR-2014 Royalty Report								
Product Code	Sales Volume	Sales MMBtu	Sales Value	Sales Type Code	RVPA	Trans Allow	Proc Allow	RVLA
03	1870.77	2,118.23	\$6,649.23	ARMS	\$831.15			
07	6,903.59			ARMS				
15	129.75	162.20		ARMS				



10 Minute break!



Transportation Allowance

Assumptions

1. 60% of the retained percentage is allocable to transportation
2. A UCA of 20% for the pre-plant transportation, including pipeline fuel and value of the retained percent allocable to transportation
3. 100% of the post-plant NGL transportation costs are allowable as a transportation allowance
 - In some cases, there may be additional transportation charges in your contract which may or may not be allowable.

Three Parts of the Transportation Allowance



1. The allowed portion of the pipeline fuel value
2. The allowed portion of the percentage of products retained allocable to transportation
3. The allowed portion of the NGL post-plant transportation fee

Step 1: Amount and Value of Allowed Pipeline Fuel



- In this example, we assume a transportation UCA of 20%, so the value of 20% of the pipeline fuel can be included in your transportation allowance
- Locate the “Contractual Field Deducts” (162.20 MMBtu) (**D**) and multiply by the sales price of the residue gas (\$3.13905/MMBtu) (**J**), then by the allowable UCA (20%), and then by the royalty rate (12.5%)

Pipeline Fuel Pre-Plant Transportation Allowance (Step 1):

Allowance = contractual field deducts × sales price × UCA × royalty rate

$$\text{Allowance} = 162.20 \text{ MMBtu} \times \$3.13905/\text{MMBtu} \times 0.20 \times 0.125$$

$$\text{Allowance} = \$12.73$$



Step 2

- Step 2 has three parts to help us calculate the amount and value of the allowed percentage of retained products allocable to transportation:
 - A. Calculate the value of the retained residue gas
 - B. Calculate the value of the retained NGLs
 - C. Calculate the allowed portion from the retained value of the NGLs and residue gas allocable to transportation

Step 2a: Value of the Retained Residue Gas



- The percent retained is 1 minus the contract percentage (85%) (**I**) or 15%
- Locate the net residue MMBtu (1,922.39 MMBtu) (**H**) and multiply by the percent retained (15%) and then by the residue gas unit price (\$3.13905/MMBtu) (**J**)

Value of Retained Residue Gas (Step 2a):

Value of retained residue gas = net residue MMBtu × % retained × residue unit price

Value of retained residue gas = 1,922.39 MMBtu × 0.15 × \$3.13905/MMBtu

Value of retained residue gas = \$905.17

Step 2b: Value of the Retained NGLs



- The percent retained is 1 minus the contract percentage (85%) (P) or 15%
- Locate the allocated gallons (6,903.59 gal) (L) and multiply by the percent retained (15%) and then by the **net** volume-weighted-average price from Step 1 for PC 07-NGLs (\$0.85182/gal)

Value of Retained NGLs (Step 2b):

Value of retained NGLs

= allocated gallons × % retained × net volume-weighted-average price

Value of retained NGLs = 6,903.59 gal × 0.15 × \$0.85182/gal

Value of retained NGLs = \$882.09

Step 2c: Allowed Portion from the Retained Value Allocable to Transportation



- Add the value of the retained residue gas from Step 2a (\$905.17) to the value of the NGLs from Step 2b (\$882.09) to get a value of \$1,787.26
- Multiply the value of the products (\$1,787.26) by the percentage allocable to transportation (60%), then by the transportation UCA (20%) and then by the royalty rate (12.5%)

Portion of Transportation Allowance (Step 2c):

$$\begin{aligned} & \text{Portion of transportation allowance} \\ & = (\text{value of retained residue gas} + \text{value of retained NGLs}) \\ & \quad \times \% \text{ allocable to transportation} \times \text{UCA} \times \text{royalty rate} \end{aligned}$$

$$\text{Portion of transportation allowance} = (\$905.17 + \$882.09) \times 0.60 \times 0.20 \times 0.125$$

$$\text{Portion of transportation allowance} = \$214.47 \times 0.125$$

$$\text{Portion of transportation allowance} = \$26.81$$

Step 3: Total Pre-plant Transportation



- Add the portion of the pre-plant transportation allowance from Step 1 (\$12.73) to the portion of the pre-plant transportation allowance from Step 2c (\$26.81)

Total Pre-Plant Transportation Allowance (Step 3):

Total allowance

*= pre-plant transportation allowance from Step 1
+ pre-plant transportation allowance from Step 2c*

Total allowance = \$12.73 + \$26.81

Total allowance = \$39.54

Step 4: Residue Gas Allocation of Pre-plant Transportation



- Divide the residue gas sales MMBtu from PC 03 Step 5 (2,118.23 MMBtu) by the gross wellhead MMBtu (3,013.00 MMBtu **(B)**)
- The residue gas allocation is 0.70303
- Multiply the residue gas allocation by the total pre-plant transportation allowance from Step 3 (\$39.54)

Residue Allocation and Transportation Allowance (TA) (Step 4):

$$\text{Residue allocation} = \frac{\text{residue gas sales MMBtu}}{\text{gross wellhead MMBtu}}$$

$$\text{Residue allocation} = \frac{2,118.23 \text{ MMBtu}}{3,013.00 \text{ MMBtu}}$$

$$\text{Residue allocation} = 0.70303$$

$$\text{PC 03 TA} = \text{total transportation allowance} \times \text{residue allocation}$$

$$\text{PC 03 TA} = \$39.54 \times 0.70303$$

$$\text{PC 03 TA} = \$27.80$$

Step 5: NGL Allocation of Pre-plant Transportation



- Divide the NGL shrink MMBtu (602.01 MMBtu (Q)) by the gross wellhead MMBtu (3,013.00 MMBtu (B))
 - We use the NGL shrink MMBtu rather than the NGLs gallons in order to keep our units consistent across all products
- The NGL allocation is 0.19980
- Multiply by the NGL allocation by the total pre-plant transportation allowance from Step 3 (\$39.54)

NGL Allocation and Transportation Allowance (TA) (Step 5):

$$NGL \text{ allocation} = \frac{NGL \text{ shrink}}{Gross \text{ wellhead MMBtu}}$$

$$NGL \text{ allocation} = \frac{602.01 \text{ MMBtu}}{3,013.00 \text{ MMBtu}}$$

$$NGL \text{ allocation} = 0.19980$$

$$PC \text{ 07 TA} = \text{total transportation allowance} \times \text{NGL allocation}$$

$$PC \text{ 07 TA} = \$39.54 \times 0.19980$$

$$PC \text{ 07 TA} = \$7.90$$

Step 6: Pipeline Fuel Allocation of Pre-plant Transportation



- Divide the contractual field deducts MMBtu (162.20 MMBtu (D)) by the gross wellhead MMBtu (3,013.00 MMBtu (B))
- The pipeline fuel allocation is 0.05383
- Multiply by the pipeline fuel allocation by the total pre-plant transportation allowance from Step 3 (\$39.54)

Pipeline Fuel Allocation and Transportation Allowance (TA) (Step 6):

$$\text{Pipeline fuel allocation} = \frac{\text{contractual field deducts MMBtu}}{\text{gross wellhead MMBtu}}$$

$$\text{Pipeline fuel allocation} = \frac{162.20 \text{ MMBtu}}{3,013.00 \text{ MMBtu}}$$

$$\text{Pipeline fuel allocation} = 0.05383$$

$$PC\ 15\ TA = \text{total transportation allowance} \times \text{pipeline fuel allocation}$$

$$PC\ 15\ TA = \$39.54 \times 0.05383$$

$$PC\ 15\ TA = \$2.13$$



Note on Allocation Decimals

- The allocation decimals will not add up to 1 because a portion of the transportation allowance is allocated to the allowed plant fuel.
- Because the allowed plant fuel is not royalty-bearing, you may not take a transportation allowance for the cost of moving it.

Regs: 30 CFR § 1206.152(b)(1)

Step 7: Post-plant NGL Transportation Allowance



- Multiply the allocated NGLs (6,903.59 gallons) (L) by the NGL transportation fee (\$0.05/gallon), then by the post-plant NGL transportation UCA (100%), and then by the royalty rate (12.5%)

Post-plant NGL Transportation Allowance (Step 7):

Allowance = allocated NGL gallons × transportation fee × UCA × royalty rate

$$\text{Allowance} = 6,903.59 \text{ gallons} \times \$0.05/\text{gal} \times 1.00 \times 0.125$$

$$\text{Allowance} = \$43.15$$

Step 8: Total Transportation Allowance for PC 07



- Add the post-plant NGL transportation allowance from Step 7 (\$43.15) to the NGLs share of the pre-plant transportation allowance allocated to PC 07 from Step 5 (\$7.90)

Total PC 07 Transportation Allowance (Step 8):

Total allowance

= pre-plant transportation allowance
+ post-plant NGL transportation allowance

Total allowance = \$7.90 + \$43.15

Total allowance = \$51.05

Step 9: 50% Transportation Allowance Limits



- Ensure the transportation allowances do not exceed the 50% transportation allowance limit under 30 CFR §1206.152(e)(1):
 - *Your transportation allowance may not exceed 50 percent of the value of the residue gas, gas plant products, or unprocessed gas as determined under §1206.141 or §1206.142.*
- You may only take your reasonable, actual, allowed costs up to 50% of the value of the transported product. If your allowed costs exceed 50% of the value of the transported product, you must limit your allowance to 50%. In most cases, your costs will not reach 50%*.

Step 9a: 50% Limit for Each Product



- Multiply the RVPA of the residue gas (\$831.15) by 50% to find the limit of \$415.58
- Multiply the RVPA of the NGLs (\$838.63) by 50% to find the limit of \$419.32
- Multiply the RVPA of the pipeline fuel (\$63.64) by 50% to find the limit of \$31.82

Transportation Allowance Limit Check (Step 9a):

Transportation allowance limit = product RVPA x limit %

Transportation allowance limit for residue gas = \$831.15 x 50%

Transportation allowance limit for residue gas = \$415.58

Transportation allowance limit for NGLs = \$838.63 x 50%

Transportation allowance limit for NGLs = \$419.32

Transportation allowance limit for pipeline fuel = \$63.64 x 50%

Transportation allowance limit for pipeline fuel = \$31.82

Step 9b: Compare Transportation Allowance to Limit



- The residue gas allowance of \$27.80 is less than \$415.58 and is therefore within the transportation allowance limit
- The NGL allowance of \$51.05 is less than \$419.32 and is therefore within the transportation allowance limit

Transportation Allowance Limit Check (Step 9b):

Product transporation allowance < Transportation allowance limit

Residue gas transporation allowance: \$27.80 < \$415.58

NGLs transporation allowance: \$51.05 < \$419.32

Pipeline fuel transporation allowance: \$2.13 < \$31.82



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07	6,903.59		\$6,709.05	ARMS	\$838.63	-\$51.05		
15	129.75	162.20	\$509.15	ARMS	\$63.64	-\$2.13		



5 minute break to absorb the transportation allowance



Processing Allowance

Assumptions

1. 40% of the retained percentage is allocable to processing
2. A UCA of 40% for the retained value of the NGLs and residue gas, which will be used to calculate the allowed portion of the 15% of value retained by the plant, and
3. 100% of the fractionation costs are allowable as a processing allowance
 - In some cases, there may be additional processing charges in your contract which may or may not be allowable.

Two Parts of the Processing Allowance



1. The allowed portion of the percentage of products retained allocable to processing
2. The allowed portion of the NGL fractionation fee

Step 1: Allowed Portion from the Retained Value Allocable to Processing



- Multiply the value of the retained products from Step 2c of the transportation allowance calculations (\$1,787.26) by the percentage allocable to processing (40%), then by the processing UCA (40%) and then by the royalty rate (12.5%)

Portion of Processing Allowance from the Value of the Retained NGLs and Residue Gas Allocable to Processing (Step 1):

Portion of processing allowance

$= \text{value of retained products} \times \% \text{ allocable to processing} \times \text{UCA}$
 $\times \text{royalty rate}$

Portion of processing allowance = \$ × × ×

Portion of processing allowance = \$285.96 × 0.125

Portion of processing allowance = \$35.75

Step 2: Amount and Value of Allowed Fractionation Cost



- In this example, we are assuming that fractionation costs are 100% allowable, so the value of 100% of the fractionation can be included in your processing allowance
- Multiply the allocated NGLs (**L**) by the NGL fractionation fee (\$0.07/gallon), then by the fractionation cost UCA (100%), and then by the royalty rate (12.5%)

Portion of Processing Allowance from the Allowed Fractionation Costs (Step 2):

Portion of processing allowance

$= \text{allocated NGL gallons} \times \text{fractionation fee} \times \text{UCA} \times \text{royalty rate}$

Portion of processing allowance

$= 6,903.59 \times \times$

Portion of processing allowance = \$60.41

Step 3: Total Processing Allowance



- Add the portion of the processing allowance from the retained value of the NGLs and residue gas from Step 1 (\$35.75) to portion of the processing allowance from the fractionation cost from Step 2 (\$60.41)

Total PC 07 Processing Allowance (Step 3):

$$\text{Total allowance} = \text{Step 1} + \text{Step 2}$$

$$\text{Total allowance} = \$35.75 + \$60.41$$

$$\text{Total allowance} = \$96.16$$

Step 4: 66 $\frac{2}{3}$ % Processing Allowance Limit



- Ensure the processing allowance does not exceed the 66 $\frac{2}{3}$ % processing allowance limit under 30 CFR §1206.159(c)(2):
 - *The processing allowance deduction on the basis of an individual product may not exceed 66 $\frac{2}{3}$ percent of the value of each gas plant product determined under §1206.142(c). Before you calculate the 66 $\frac{2}{3}$ percent limit, you must first reduce the value for any transportation allowances related to post-processing transportation authorized under §1206.152.*

Step 4a: 66 $\frac{2}{3}$ % Processing Allowance Limit with Post-Plant Reduction



- Subtract the post-plant NGL transportation from Step 7 of transportation allowance (\$43.15) from the NGL Royalty Value Prior to Allowances from Step 3 of PC 07 - NGLs (\$838.63)
- Multiply the reduced amount (\$795.48) by 66 $\frac{2}{3}$ %

Processing Allowance Limit Check (Step 4a):

Processing allowance limit = (NGL RVPA – post-plant transportation) x limit %

Processing allowance limit = (\$ – \$) x 0.66667

Processing allowance limit = \$795.48 x 0.66667

Processing allowance limit = \$530.32

Step 4b: Compare Processing Allowance to Limit



- Compare the \$530.32 to the total processing allowance in Step 3 (\$96.16)
- \$96.16 is less than \$530.32 and is therefore within the processing allowance limit

Processing Allowance Limit Check (Step 4b):

total processing allowance < processing allowance limit

\$ < \$



2014 Lines Thus Far

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03	1870.77	2,118.23	\$6,649.23	ARMS	\$831.15	-\$27.80		
07	6,903.59		\$6,709.05	ARMS	\$838.63	-\$51.05	-\$96.16	
15	129.75	162.20	\$509.15	ARMS	\$63.64	-\$2.13		



Royalty Value Less Allowances (RVLA)



Step 1: RVLA for Residue Gas

- Find the RVPA for Product Code 03 from Step 7 of PC 03 – Residue Gas (\$831.15) and subtract the transportation allowance allocated to PC 03 from Step 4 of transportation allowance (\$27.80)

RVLA for PC 03 (Step 1):

$$PC\ 03\ RVLA = RVPA - PC\ 03\ transportation\ allowance$$

$$PC\ 03\ RVLA = \$831.15 - \$27.80$$

$$PC\ 03\ RVLA = \$803.35$$

Step 2: RVLA for NGLs

- Find the RVPA for Product Code 07 from Step 3 of PC 07 – NGLs (\$838.63), subtract the total transportation allowance for PC 07 from Step 8 of transportation allowance (\$51.05), and then, subtract the total processing allowance from Step 3 of processing allowance (\$96.16)

RVLA for PC 07 (Step 2):

PC 07 RVLA

= RVPA – PC 07 transportation allowance – processing allowance

$$PC\ 07\ RVLA = \$838.63 - \$51.05 - \$96.16$$

$$PC\ 07\ RVLA = \$691.42$$



Step 3: RVLA for Pipeline Fuel

- Find the RVPA for Product Code 15 from Step 2 of PC 15 – Pipeline Fuel (\$63.64) and subtract the transportation allowance allocated to PC 15 from Step 6 of transportation allowance (\$2.13)

RVLA for PC 15 (Step 3):

$$PC\ 15\ RVLA = RVPA - PC\ 15\ transportation\ allowance$$

$$PC\ 15\ RVLA = \$63.64 - \$2.13$$

$$PC\ 15\ RVLA = \$61.51$$



2014 Lines Final Reporting

Form ONRR-2014 Royalty Report								
Product Code	Sales Volume	Sales MMBtu	Sales Value	Sales Type Code	RVPA	Trans Allow	Proc Allow	RVLA
03	1870.77	2,118.23	\$6,649.23	ARMS	\$831.15	-\$27.80		\$803.35
07	6,903.59		\$6,709.05	ARMS	\$838.63	-\$51.05	-\$96.16	\$691.42
15	129.75	162.20	\$509.15	ARMS	\$63.64	-\$2.13		\$61.51



Intricacies

What about negative NGL values?



- Negative NGL values are generally due to netted fees, not actual negative pricing
 - Be sure to add back all netted fees
- NGL prices may not be reduced by any costs of placing the NGLs into marketable condition (30 CFR §1206.146)
- If you have true negative costs, even after adding back all netted fees, contact Royalty Valuation at
royaltyvaluation@onrr.gov



What about L&U?

- Pipeline L&U accounted for as part of PC 15 and transportation allowance
 - Please see Dear Reporter Letter from December 18, 2014 at <https://www.onrr.gov/PDFDocs/20141218.pdf>
- For questions on how to handle plant L&U, please contact Royalty Valuation at royaltyvaluation@onrr.gov

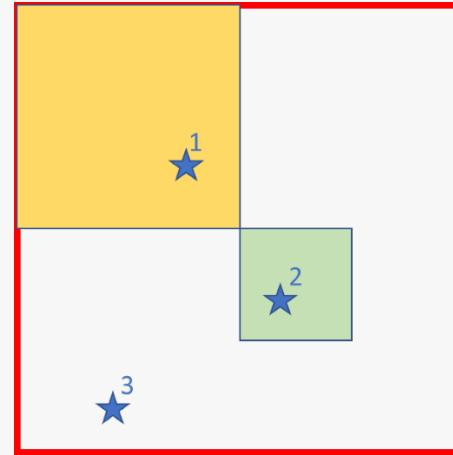


How to account for fees?

- In order to be taken as allowances, fees must:
 - Be directly related to transportation or processing
 - Not contain any marketable condition costs (must be unbundled)
- Allowed portions of fees that meet criteria are taken as part of the transportation or processing allowance as appropriate

How to account for CAs

- What if you have multiple plant statements that contribute to one lease (e.g. in a CA)?



Communication Agreement X

Lease A

Lease B

Wells

Unmarked areas within the CA are fee lands.



**Additional questions?
Contact Royalty Valuation:
Royaltyvaluation@onrr.gov
Onrrunbundling@onrr.gov**