

## Indian Example—Initial Processed Gas Reporting (Arm’s-Length Sale) in Non-Index Zone (Major Portion)

For Indian leases not located in an index zone, regulations at 30 CFR 1206.174(a)(4)(i) require a lessee to initially value the production under the appropriate part of §1206.174. For processed gas sold under an **arm’s-length contract**, the value for royalty purposes of gas, residue gas, or any gas plant product is based on the lessee’s gross proceeds. This example illustrates how you should calculate royalties for initial reporting for leases not in an index zone.



The following is based on a sample statement. Statements may vary. Be sure to read carefully and contact [royaltyvaluation@onrr.gov](mailto:royaltyvaluation@onrr.gov) if you need further assistance!

### Important Note on Reporting Leases NOT in an Index Zone:

Leases not in an index zone require at least two, and possibly three, calculations: 1) initial calculations and reporting based on gross proceeds, as shown in this example, and 2) comparing the gross proceeds value to the major portion value which will be published at a later date, and if necessary, 3) adjusting your reporting. After the publication of the major portion price, you will need to complete this comparison as well as any required dual accounting.

The lease and contracts for this example meet all the following conditions:

- ✓ The gas produced is from an **Indian** oil and gas lease **NOT** located within an index zone.
- ✓ The lease contains a major portion provision.
- ✓ Gas value for royalty purposes is based on the gross proceeds under an **arm’s-length contract** under §1206.174(b).
- ✓ The sales contract is for **processed** gas, i.e., it provides for payment based on the value of residue gas, natural gas liquids (NGLs), or other gas plant products (e.g., sulfur, carbon dioxide, etc.).

If you have any questions regarding whether this example applies to your situation, please contact [royaltyvaluation@onrr.gov](mailto:royaltyvaluation@onrr.gov). You can find a map of major portion areas on ONRR’s website: [Indian Gas Major Portion Map](#).

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This example addresses reporting and calculations for the following product codes. The **BLUE** letters refer to fields on the sample statement.

Product:	Location in Statement:
PC 03 Residue Gas	"Net Residue Mcf" <b>(G)</b> and "Net Residue MMBtu" <b>(H)</b> in the statement's "Residue Settlement" section
PC 07 Natural Gas Liquids (NGLs)	"Allocated" NGLs <b>(L)</b> in the statement's "Component Settlement" section
PC 15 Pipeline Fuel	"Contractual Field Deducts Mcf" <b>(C)</b> and "Contractual Field Deducts MMBtu" <b>(D)</b> in the statement's "Wellhead Information" section

The assumptions below are for purposes of this example only. The assumptions provide the basis to show you how to perform the necessary calculations. Your situation may vary from these assumptions. Please contact [royaltyvaluation@onrr.gov](mailto:royaltyvaluation@onrr.gov) with your specific questions.

Assumptions for this example:

1. The gas is produced from an Indian lease in Montana (not in an index zone) and is subject to major portion.
2. The gas is processed and valued as processed gas.
3. The gas is transported, processed, and sold under arm's-length contracts.
4. The processor retains 15% of the residue gas and NGLs. If the lessee chose to unbundle costs (which we do not in this example), this retained fee could be part of a transportation and processing allowance.
5. 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](mailto:royaltyvaluation@onrr.gov).
6. The royalty rate is 18%.

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7. The prices per gallon of NGL components shown on the example gas plant statement (“price at the plant”) are the component prices **downstream** of the gas plant **less** the processor’s transportation and fractionation (T&F) fees. The processor deducted a post-plant NGL transportation fee of \$0.05/gallon and an NGL fractionation fee of \$0.07/gallon from the downstream price. Here, we provided the T&F fee; you may need to check your contract or other sources for the amount.
- a. The transportation portion of the T&F fee for this example is NOT a “transportation factor” under the regulations at 30 CFR §1206.178(a)(5).
  - b. The T&F fee for this example does not include costs of marketable condition or other disallowed costs and can be taken as an allowance where applicable.
8. In this example, we assume that transportation and processing costs are not unbundled (other than the T&F fee, as noted in Assumption 7) to calculate allowances. If lessees choose to take allowances against their Indian gas gross proceeds, they must unbundle these costs.
9. As transportation and processing costs are not unbundled, all plant fuel and pipeline fuel are disallowed.
10. The NGL minimum value provision for production in Utah under §1206.174(g)(2)(i)(B) uses the following Conway, Kansas published prices:



This situation falls under "Scenario 2" in the Processed Gas Reporting: Minimum Value Provision for NGLs example. Please see that example for additional information on calculating the regulatory minimum NGL value.

Component	Purity Ethane (C2)	Propane (C3)	Isobutane (iC4)	Normal Butane (nC4)	Natural Gasoline (C5+)
\$/gallon	0.24890	0.85283	1.43603	1.34133	2.17513

This example walks you through the initial royalty calculation and reporting for each product code and completes relevant fields on a sample Form ONRR-2014 after each step. This example only covers valuation-related fields in the order they appear on the Form ONRR-2014.

You can find more information about product codes and reporting in the [ONRR Indian Oil and Gas Payor Handbook](#).

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## PC 03 – Residue Gas

Royalty is due on residue gas resulting from processing, including disallowed plant fuel.



This example includes the assumption the payor has not unbundled. However, the regulations at 30 CFR §1206.179(e) allow for a reasonable amount of plant fuel royalty free. You may wish to determine the reasonable portion of plant fuel and exclude it from royalty calculations.

### Step 1:

In order to determine the plant fuel volume in Mcf, you need to calculate a residue Btu factor:

- The Btu factor is the heating value per volume of the residue gas, calculated by dividing the net residue gas MMBtu (1,922.39 MMBtu) **(H)** by the volume of the net residue gas Mcf (1,697.81 Mcf) **(G)**
- The residue Btu factor is 1.13228 MMBtu/Mcf



Gas should be reported at 14.73 psi. See the *Oil and Gas Indian Payor Handbook* Section 2.4.3 for more information.

### PC 03 Btu Factor (Step 1):

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

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

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

### Step 2:

Calculate the plant fuel volume (Mcf):

- Identify the total plant fuel reported on the plant statement
  - In this example, the plant fuel 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

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

$$\text{Plant fuel Mcf} = \frac{\text{contractual allocated fuel MMBtu}}{\text{Btu factor}}$$

$$\text{Plant fuel Mcf} = \frac{326.40 \text{ MMBtu}}{1.13228 \text{ MMBtu/Mcf}}$$

$$\text{Plant fuel Mcf} = 288.27 \text{ Mcf}$$

### Step 3:

Calculate the total residue gas sales volume:

- Add the volume of the residue gas sales (1,697.81 Mcf) **(G)** to the plant fuel volume from Step 2 (288.27 Mcf)
- The total residue gas sales volume is 1,986.08 Mcf

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

$$\text{PC 03 Mcf} = \text{residue Mcf} + \text{plant fuel Mcf}$$

$$\text{PC 03 Mcf} = 1,697.81 \text{ Mcf} + 288.27 \text{ Mcf}$$

$$\text{PC 03 Mcf} = 1,986.08 \text{ Mcf}$$

### Step 4:

Calculate the total residue gas sales MMBtu:

- Add the energy content of the residue gas sales (1,922.39 MMBtu) **(H)** to the energy content of the plant fuel, here the "Contractual Allocated Fuel" (326.40 MMBtu) **(F)**
- The total residue gas sales energy content is 2,248.79 MMBtu



Gas is measured by volume (cubic feet) and by its energy content (MMBtu). The energy content (MMBtu) is not a measurement of volume.

### PC 03 Residue Gas Sales MMBtu (Step 4):

$$\text{PC 03 MMBtu} = \text{residue MMBtu} + \text{plant fuel MMBtu}$$

$$\text{PC 03 MMBtu} = 1,922.39 \text{ MMBtu} + 326.40 \text{ MMBtu}$$

$$\text{PC 03 MMBtu} = 2,248.79 \text{ MMBtu}$$

### Step 5:

Calculate the residue gas sales value:

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- Multiply the residue gas sales MMBtu determined under Step 4 (2,248.79 MMBtu) by the residue unit price (\$3.13905/MMBtu) **(J)**
  - The residue gas price may not be reduced by any costs of placing the gas into marketable condition under §1206.174(h)
- The total residue gas sales value is \$7,059.06

**PC 03 Residue Gas Sales Value (Step 5):**

$$PC\ 03\ sales\ value = residue\ sales\ MMBtu \times residue\ unit\ price$$

$$PC\ 03\ sales\ value = 2,248.79\ MMBtu \times \$3.13905/MMBtu$$

$$PC\ 03\ sales\ value = \$7,059.06$$

**Step 6:**

Calculate the Royalty Value Prior to Allowances (RVPA):

- Multiply the residue gas sales value calculated under Step 5 (\$7,059.06) by the royalty rate (18%)
- The total RVPA is \$1,270.63

**PC 03 Royalty Value Prior to Allowances (RVPA) (Step 6):**

$$PC\ 03\ RVPA = sales\ value \times royalty\ rate$$

$$PC\ 03\ RVPA = \$7,059.06 \times 0.18$$

$$PC\ 03\ RVPA = \$1,270.63$$

Here is what the royalty reporting looks like so far:

Form ONRR-2014 Royalty Report							
Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			

**PC 07 – Natural Gas Liquids (NGLs)**

Royalty is due on any NGLs resulting from processing. In order to comply with the minimum NGL value provision (explained in greater detail in the Minimum NGL Value Example), you should:

1. calculate the regulatory minimum price (the published NGL price less the regulatory adjustment)
2. determine the price at the plant
3. compare the prices for each NGL component

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If the regulatory minimum price is higher, you use that in calculating the sales value for that component. If the price at the plant is higher, you use the **downstream sales price** (post-fractionation) to calculate the sales value for that component. Because the price at the plant is net of T&F fees, you must add those fees back in to calculate the **downstream sales price**. As those fees cannot be netted against the sales value, they should instead be taken as allowances where appropriate. For a more in-depth explanation of why the NGL minimum value is calculated this way, please see our full Processed Gas Reporting: Minimum Value Provision for NGLs Example (refer to Scenario 2 for details pertaining to *this* example).

**Step 1:**

Determine the NGL minimum value price for each NGL component:

- Under §1206.174(g)(2), the NGL value must not be less than the regulatory minimum value given in the regulations
  - In this example, use the minimum value for Montana at §1206.174(g)(2)(i)(B), which is the published NGL price at Conway, Kansas less seven cents

**Conway, Kansas published NGL prices**

Component	Purity Ethane (C2)	Propane (C3)	Isobutane (iC4)	Normal Butane (nC4)	Natural Gasoline (C5+)
\$/gallon	0.24890	0.85283	1.43603	1.34133	2.17513

**Step 1a:**

Calculate the regulatory minimum price by adjusting the published NGL component price. For Montana, reduce the published NGL price at Conway, Kansas by seven cents:

- Take the published NGL price for ethane (\$0.24890/gallon) and subtract \$0.07
  - The regulatory minimum price for ethane is \$0.17890/gallon
- Take the published NGL price for propane (\$0.85283/gallon) and subtract \$0.07
  - The regulatory minimum price for propane is \$0.78283/gallon
- Take the published NGL price for isobutane (\$1.43603/gallon) and subtract \$0.07
  - The regulatory minimum price for isobutane is \$1.36603/gallon

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- Take the published NGL price for normal butane (\$1.34133/gallon) and subtract \$0.07
  - The regulatory minimum price for normal butane is \$1.27133/gallon
- Take the published NGL price for natural gasoline (\$2.17513/gallon) and subtract \$0.07
  - The regulatory minimum price for natural gasoline is \$2.10513/gallon

### Step 1b:

Compare the regulatory minimum price from Step 1a to the price at the plant (which for this example is the price on the example gas plant statement **(R)**) and note which is higher

- For ethane, the **price at the plant** of \$0.194145/gallon is higher than the regulatory minimum price of \$0.17890/gallon
- For propane, the **price at the plant** of \$0.810270/gallon is higher than the regulatory minimum price of \$0.78283/gallon
- For isobutane, the **regulatory minimum price** of \$1.36603/gallon is higher than the price at the plant of \$1.365051/gallon
- For normal butane, the **regulatory minimum price** of \$1.27133/gallon is higher than the price at the plant of \$1.261770/gallon
- For natural gasoline (called “pentanes plus” on example statement), the **regulatory minimum price** of \$2.10513/gallon is higher than the price at the plant of \$2.049583/gallon

### PC 07 Calculate Regulatory Minimum Price and Compare to Price at Plant (Steps 1a-1b):

Component	Published NGL Price (/gal)	Regulatory Adjustment (/gal)	Regulatory Minimum Price (/gal)	Price at Plant (/gal)	Higher Price?
Ethane	\$0.24890	- \$0.07	= \$0.17890	\$0.194145	Price at Plant
Propane	\$0.85283	- \$0.07	= \$0.78283	\$0.810270	Price at Plant
Isobutane	\$1.43603	- \$0.07	= \$1.36603	\$1.365051	Regulatory Minimum Price
Normal Butane	\$1.34133	- \$0.07	= \$1.27133	\$1.261770	Regulatory Minimum Price
Natural Gasoline	\$2.17513	- \$0.07	= \$2.10513	\$2.049583	Regulatory Minimum Price

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## Step 2:

Calculate the NGL sales value

### Step 2a:

Calculate the gross proceeds value of components where the price at the plant was higher than the regulatory minimum value (from Step 1b, ethane and propane). As discussed in Assumption #7 and the introduction to this section, the price at the plant is net of T&F fees, and we therefore cannot use it to calculate the sales value. Instead, we'll use the *downstream* price, which is the price at the plant for each component plus the T&F fees.

- Take the price at the plant for ethane (\$0.194145/gallon) and add the T&F fee (\$0.12/gallon) to get the ethane downstream sales price of \$0.314145/gallon
- Multiply the ethane downstream sales price (\$0.314145/gallon) by the ethane gallons (2,684.22 gallons) **(S)** to get the ethane value
  - The ethane value is \$843.23
- Take the price at the plant for propane (\$0.810270/gallon) and add the T&F fee (\$0.12/gallon) to get the propane downstream sales price of \$0.930270/gallon
- Multiply the propane downstream sales price (\$0.930270/gallon) by the propane gallons (2,038.99 gallons) **(S)** to get the propane value
  - The propane value is \$1,896.81

### PC 07 Value of Price at the Plant Components (Step 2a):

Component	Price at Plant (/gal) + T&F fee (/gal)	Downstream Sales Price (/gal)	Gallons	Value
Ethane	\$0.194145 + \$0.12	= \$0.314145	× 2,684.22	= \$843.23
Propane	\$0.810270 + \$0.12	= \$0.930270	× 2,038.99	= \$1,896.81

### Step 2b:

Calculate the value of NGL components where the regulatory minimum price was higher

- Take the regulatory minimum price for isobutane (\$1.36603/gallon) and multiply by the isobutane gallons (367.74 gallons) **(S)**
  - The isobutane value is \$502.34
- Take the regulatory minimum price for normal butane (\$1.27133/gallon) and multiply by the normal butane gallons (647.12 gallons) **(S)**

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- The normal butane value is \$822.70
- Take the regulatory minimum price for natural gasoline (\$2.10513/gallon) and multiply by the natural gasoline (pentanes plus) gallons (1,165.52 gallons) **(S)**
  - The natural gasoline value is \$2,453.57

**PC 07 Value of Regulatory Minimum Price Components (Step 2b):**

Component	Regulatory Minimum Price (/gal)	Gallons	Value
Isobutane	\$1.36603	× 367.74	= \$502.34
Normal Butane	\$1.27133	× 647.12	= \$822.70
Natural Gasoline	\$2.10513	× 1,165.52	= \$2,453.57

**Step 2c:**

Calculate the total NGL sales value

- Add the ethane value (\$843.23), propane value (\$1,896.81), isobutane value (\$502.34), normal butane value (\$822.70), and natural gasoline value (\$2,453.57) for a total sales value of \$6,518.65



Royalty is due on the NGLs actually recovered, not on the theoretical NGLs or the NGLs on which the lessee is actually paid.

**PC 07 Total NGL Sales Value (Step 2c):**

$$\text{Sales value} = \text{ethane value} + \text{propane value} + \text{isobutane value} + \text{normal butane value} + \text{natural gasoline value}$$

$$\text{Sales value} = \$843.23 + \$1,896.81 + \$502.34 + \$822.70 + \$2,453.57$$

$$\text{Sales value} = \$6,518.65$$

**Step 3:**

Determine the NGL sales volume:

- 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 (6,903.59 gallons)

**Step 4:**

Determine the Royalty Value Prior to Allowances (RVPA):

- Multiply the sales value from Step 2c (\$6,518.65) by the royalty rate (18%)

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- The RVPA is \$1,173.36

**PC 07 Royalty Value Prior to Allowances (RVPA) (Step 4):**

$$PC\ 07\ RVPA = sales\ value \times royalty\ rate$$

$$PC\ 07\ RVPA = \$6,518.65 \times 0.18$$

$$PC\ 07\ RVPA = \$1,173.36$$

Here is what the royalty reporting looks like so far:

Form ONRR-2014 Royalty Report							
Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			
07	6,903.59		\$6,518.65	\$1,173.36			

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## PC 15 – Pipeline Fuel

Report gas used or lost along a pipeline using PC 15. The [reporter letter dated December 18, 2014](#), addresses this topic in detail.

### Step 1:

Determine the pipeline fuel sales value:

- Locate the “Contractual Field Deducts” MMBtu amount on the plant statement and report as a positive number for the Gas Sales MMBtu (162.20 MMBtu) **(D)**
  - Also locate the pipeline fuel volume to report as the Sales Volume (129.75 Mcf) **(C)**
- Multiply the pipeline fuel MMBtu (162.20 MMBtu) **(D)** by the residue gas unit price (\$3.13905/MMBtu) **(J)**
  - Since there is no sale of the pipeline fuel, you value the pipeline fuel as a no-sale situation under §1206.174(c), and specifically §1206.174(c)(2), using the residue gas sales price to value like-quality gas
- The pipeline fuel sales value is \$509.15



There may be other names for pipeline fuel. For this example, our statement lists “Contractual Field Deducts.”

### PC 15 Pipeline Fuel Sales Value (Step 1):

$$PC\ 15\ sales\ value = pipeline\ fuel\ MMBtu \times unit\ price$$

$$PC\ 15\ sales\ value = 162.20\ MMBtu \times \$3.13905/MMBtu$$

$$PC\ 15\ sales\ value = \$509.15$$

### Step 2:

Determine the Royalty Value Prior to Allowances (RVPA):

- Multiply the pipeline fuel sales value from Step 1 (\$509.15) by the royalty rate (18%)
- The RVPA is \$91.65

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

$$PC\ 15\ RVPA = \text{sales value} \times \text{royalty rate}$$

$$PC\ 15\ RVPA = \$509.15 \times 0.18$$

$$PC\ 15\ RVPA = \$91.65$$

Here is what the royalty reporting looks like so far:

Form ONRR-2014 Royalty Report							
Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			
07	6,903.59		\$6,518.65	\$1,173.36			
15	129.75	162.20	\$509.15	\$91.65			

## Transportation Allowance

In this example, we assume there are no pre-plant transportation costs. Also, this example assumes the post-plant transportation fee for NGLs does not include marketable condition or other disallowed costs and can be claimed as an allowance. Only the post-plant transportation costs of NGL components valued using gross proceeds (i.e., components where the price at the plant is higher than the minimum regulatory price) will contribute to the transportation allowance, as those are the only actual post-plant transportation costs incurred by the lessee. Therefore, we will only apply post-plant transportation costs as an allowance for the ethane and propane components.



You must submit your contracts for arm's-length transportation and processing allowances. For non-arm's-length allowances, you must submit Form ONRR-4295 (transportation) and/or Form ONRR-4109 (processing) to [onrrindianforms@onrr.gov](mailto:onrrindianforms@onrr.gov).

### Step 1:



If your contract does not specify a T&F split, you can see if the plant can provide information or you can look at other relevant information (such as FERC tariffs) to produce a reasonable split value.

Determine the gallons of NGLs reported using gross proceeds:

- Locate the components from Step 2a PC 07 – NGLs where the price at the plant was higher and we used the downstream price to calculate gross proceeds
- We calculated the gross proceeds for ethane and propane

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- Add the gallons of ethane (2,684.22 gallons) **(S)** and gallons of propane (2,038.99 gallons) **(S)** to get the total gallons valued using gross proceeds
- The total gallons valued using gross proceeds is 4,723.21 gallons

**Total NGL gallons valued using gross proceeds (Step 1):**

$$\text{Total gallons} = \text{ethane gallons} + \text{propane gallons}$$

$$\text{Total gallons} = 2,684.22 \text{ gallons} + 2,038.99 \text{ gallons}$$

$$\text{Total gallons} = 4,723.21 \text{ gallons}$$

**Step 2:**

Calculate the transportation allowance

- In this example, we assume that NGL post-plant transportation fee costs are allowable, so you can include the value of the NGL post-plant transportation fee in your transportation allowance *for components valued using gross proceeds*
- Multiply the total NGL gallons valued using gross proceeds from Step 1 (4,723.21 gallons) by the post-plant NGL transportation fee (\$0.05/gallon), and then by the royalty rate (18%)
- The transportation allowance is \$42.51

**Transportation Allowance from the Allowed Transportation Costs (Step 2):**

$$\text{Transportation allowance}$$

$$= \text{NGL gallons} \times \text{post-plant transportation fee} \times \text{royalty rate}$$

$$\text{Transportation allowance} = 4,723.21 \text{ gallons} \times \$0.05/\text{gal} \times 0.18$$

$$\text{Transportation allowance} = \$42.51$$

**Step 3:**

Ensure the transportation allowance does not exceed the 50% transportation allowance limit under §1206.177(c)(1):



Under 30 CFR §1206.179(b) "ONRR considers NGLs to be one product" and therefore the allowance limit is on the total NGL value.

*Except as provided in paragraphs (c)(2) and (3) of this section, your transportation allowance deduction for each sales type code may not exceed*

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50 percent of the value of the unprocessed gas, residue gas, or gas plant product.

You may only take your reasonable, actual, allowed costs up to 50% of the value of the transported product.

**Step 3a:**

Calculate the 50% limit for NGLs:

- Locate the NGL Royalty Value Prior to Allowances (RVPA) amount from Step 5 of PC 07 – NGLs (\$1,173.38)
- Multiply the RVPA of the NGLs (\$1,173.38) by 50% to find the limit of \$586.69

**Transportation Allowance Limit Check (Step 3a):**

$$\text{Transportation allowance limit} = \text{NGL RVPA} \times \text{limit \%}$$

$$\text{Transportation allowance limit for NGLs} = \$1,173.38 \times 0.50$$

$$\text{Transportation allowance limit for NGLs} = \$586.69$$

**Step 3b:**

Compare the transportation allowance for NGLs to the 50% limit calculated above:

- Locate the transportation allowance for NGLs from Step 2 (\$42.51)
- \$42.50 is less than \$586.69 and is therefore within the transportation allowance limit

**Transportation Allowance Limit Check (Step 3b):**

$$\text{NGL transportation allowance} < \text{Transportation allowance limit}$$

$$\text{NGLs transportation allowance: } \$42.51 < \$586.69$$

Here is what the royalty reporting looks like at this point:

Form ONRR-2014 Royalty Report							
Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			
07	6,903.59		\$6,518.65	\$1,173.36	-\$42.51		
15	129.75	162.20	\$509.15	\$91.65			

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## Processing Allowance

You may only take a processing allowance against PC 07 – NGLs or other gas plant products. In this example, we assume there are no other unbundled processing costs besides the fractionation costs. Also, this example assumes the fractionation fee does not include marketable condition or other

disallowed costs and can be claimed as an allowance. Only the processing costs of components valued using gross proceeds (i.e., components where the price at the plant is higher than the minimum regulatory price) will contribute to the processing allowance. Therefore, we will only apply fractionation costs as a processing allowance for the ethane and propane components.



You must submit your contracts for arm's-length transportation and processing allowances. For non-arm's-length allowances, you must submit Form ONRR-4295 (transportation) and/or Form ONRR-4109 (processing) to [onrrindianforms@onrr.gov](mailto:onrrindianforms@onrr.gov).

### Step 1:



If your contract does not specify a T&F split, you can see if the plant can provide information or you can look at other relevant information (such as FERC tariffs) to produce a reasonable split value.

Determine the gallons of NGLs reported using gross proceeds:

- Locate the total gallons valued using gross proceeds from Step 1 of the

Transportation Allowance (4,723.21 gallons)

### Step 2:

Calculate the processing allowance

- In this example, we assume that fractionation fee costs are allowable, so you can include the value of the fractionation fee in your processing allowance *for components valued using gross proceeds*
- Multiply the total NGL gallons valued using gross proceeds from Step 1 (4,723.21 gallons) by the NGL fractionation fee (\$0.07/gallon), and then by the royalty rate (18%)
- The processing allowance is \$59.51

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

$$\text{Processing allowance} = \text{NGL gallons} \times \text{fractionation fee} \times \text{royalty rate}$$

$$\text{Processing allowance} = 4,723.21 \text{ gallons} \times \$0.07/\text{gal} \times 0.18$$

$$\text{Processing allowance} = \$59.51$$

### Step 3:

Ensure the processing allowance does not exceed the 66 <sup>2</sup>/<sub>3</sub>% processing allowance limit under §1206.179(c):



Under 30 CFR §1206.179(b) "ONRR considers NGLs to be one product" and therefore the allowance limit is on the total NGL value.

You may only take your reasonable, actual, allowed costs up to 66 <sup>2</sup>/<sub>3</sub>% of the value of the processed product less post-plant transportation.

### Step 3a:

Reduce the value for transportation allowances related to post-processing transportation and calculate the limit:

- Subtract the post-plant NGL transportation from Step 2 of transportation allowance (\$42.50) from the NGL Royalty Value Prior to Allowances from Step 5 of PC 07 – NGLs (\$1,173.38) to get \$1,130.88
- Multiply the reduced amount (\$1,130.88) by 66 <sup>2</sup>/<sub>3</sub>%
- The limit is \$753.92

## Processing Allowance Limit Check (Step 3a):

$$\text{Processing allowance limit} = (\text{NGL RVPA} - \text{post-plant transportation}) \times \text{limit \%}$$

$$\text{Processing allowance limit} = (\$1,173.38 - \$42.50) \times 0.66667$$

$$\text{Processing allowance limit} = \$1,130.88 \times 0.66667$$

$$\text{Processing allowance limit} = \$753.92$$

### Step 3b:

Compare the processing allowance to the limit calculated above:

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- Compare the \$753.92 processing allowance limit to the processing allowance in Step 2 (\$59.51)
- \$59.51 is less than \$753.92 and is therefore within the processing allowance limit

**Processing Allowance Limit Check (Step 3b):**

*NGL processing allowance < Processing allowance limit*

$\$59.51 < \$753.92$

Here is what the royalty reporting looks like at this point:

Form ONRR-2014 Royalty Report							
Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			
07	6,903.59		\$6,518.65	\$1,173.36	-\$42.51	-\$59.51	
15	129.75	162.20	\$509.15	\$91.65			

**Royalty Value Less Allowances**

In this example, the allowances include the transportation allowance from the post-plant transportation fee and the processing allowance from the fractionation fee for the NGL components valued using gross proceeds. If you choose to unbundle the costs of transportation and processing to ensure marketable condition costs are not included, you may be able to calculate additional allowances for transportation and processing. If you have questions about unbundling or allowances, you may contact us at [onrrunbundling@onrr.gov](mailto:onrrunbundling@onrr.gov) or [royaltyvaluation@onrr.gov](mailto:royaltyvaluation@onrr.gov).

For the product codes without allowances, the RVPA and Royalty Value Less Allowances (RVLA) will be the same.

**Step 1:**

Calculate the RVLA for the NGLs:

- Find the RVPA for Product Code 07 from Step 5 of PC 07 – NGLs (\$1,173.38) and then subtract the transportation allowance from Step 2 of transportation allowance (\$42.51) and the processing allowance from Step 2 of processing allowance (\$59.51)

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- The RVLA for Product Code 07 is \$1,071.37

**RVLA for PC 07 (Step 1):**

*PC 07 RVLA = RVPA – transportation allowance – processing allowance*

*PC 07 RVLA = \$1,173.38 – \$42.51 – \$59.51*

*PC 07 RVLA = \$1,071.37*

The final initial reporting looks like this:

Form ONRR-2014 Royalty Report							
PC	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			\$1,270.63
07	6,903.59		\$6,518.65	\$1,173.36	-\$42.51	-\$59.51	\$1,071.37
15	129.75	162.20	\$509.15	\$91.65			\$91.65

**Step 2:**

For leases in a non-index zone (major portion), initial reporting is only the first step in the process.

- After ONRR publishes the major portion price, you must compare the residue sales price to the major portion price to fulfill the major portion requirement in your lease. You **also** need to complete any required dual accounting.
  - If you elected **alternative dual accounting** for your processed gas, view the Revised Processed Gas in a Non-Index Zone (Major Portion) Using Alternative Dual Accounting example. You can make an election for alternative dual accounting using the Form ONRR-4410 Part B.
  - If you elected **actual dual accounting** on Form ONRR-4410 Part B for your processed gas, view the Revised Processed Gas in a Non-Index Zone (Major Portion) Using Actual Dual Accounting example.
  - If you believe you are **exempt from dual accounting** for your processed gas (see §§1206.176(c)-(e)), you should file Form ONRR-4410 Part A for each lease you believe to be exempt. Regardless of your dual accounting status, you still need to fulfill the major portion provision of your lease. If you need assistance with this comparison, please contact Royalty Valuation at [royaltyvaluation@onrr.gov](mailto:royaltyvaluation@onrr.gov).

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