

Indian Example—Processed Gas Reporting: Minimum Value Provision for NGLs (Arm’s-Length Sales)

When you report the value of natural gas liquids (NGLs) produced from Indian lands, ONRR’s regulations at 30 CFR §1206.174(g)(2) direct you to ensure the value of the NGLs meets or exceeds the regulatory minimum value. The regulatory minimum value is set by region as a minimum price, as explained in §1206.174(g)(2)(i)(A) and (B). This example demonstrates how to calculate and use the NGL minimum value when determining the royalty value for NGLs produced from Indian lands.



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

This example will:

- calculate “ONRR’s regulatory minimum price” for each NGL component
- determine the “lessee’s price at the plant” for each NGL component
- compare the prices to determine which is higher

“ONRR’s regulatory minimum price” is the commercial price bulletin NGL component price (also called the published price) minus the adjustment specified in the regulations at §1206.174(g)(2)(i)(A) and (B). The adjustment represents “typical” transportation and fractionation (T&F) fees. Therefore, ONRR’s regulatory minimum price is the price of the NGL components *upstream* of the fractionation point, such as at a gas processing plant.

Since ONRR’s regulatory minimum price (index price less adjustment) represents an NGL component price at a gas processing plant, we will need to find and compare the lessee’s price at a similar location (at or near a gas processing plant in the field). A lessee may process, transport, fractionate, and sell NGLs in a variety of ways. Several different scenarios are discussed in more detail at the end of this example.

For Form ONRR-2014 reporting purposes, a lessee’s actual NGL transportation and fractionation costs should be reported separately as allowances (and not rolled into the NGL sales value). Alternatively, the adjustment used to calculate ONRR’s regulatory minimum price is not an actual transportation or processing cost and is therefore rolled into the NGL sales value. This difference in reporting methods adds some complexity to reporting Indian NGLs, which is further explained later in this document.

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Example: The Minimum Value Provision for NGLs

This example is based on contractual Scenario 1 as described below but the methods and calculations will be similar for the other contractual scenarios.

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

- ✓ NGLs produced from an **Indian** oil and gas lease
- ✓ The terms of the lease require valuation under ONRR's regulations.

If you have any questions regarding whether this example applies to your situation, please contact royaltyvaluation@onrr.gov.

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 with your specific questions.

Assumptions for this example:

1. The NGLs are produced from an Indian lease in the San Juan Basin requiring compliance with the minimum value provision for NGLs.
2. The royalty rate is 18%.
3. The NGLs are sold after fractionation at Napoleonville (the "downstream" location) under an arm's-length contract.
4. The **downstream** sales price per gallon of NGL components and 100% of the allocated NGL gallons (not the net or settlement gallons) are given in the following table:

Component	Purity Ethane (C2)	Propane (C3)	Isobutane (iC4)	Normal Butane (nC4)	Natural Gasoline (C5+)
Downstream sales price (\$/gallon)	0.19	0.56	0.81	0.84	1.03
100% allocated gallons	11,245	6,774	1,089	2,772	4,236

5. Actual NGL post-plant transportation costs of \$0.06/gallon and NGL fractionation costs of \$0.04/gallon are incurred by the lessee (Scenario 1, described at the end of this document). Here, we assume the T&F fee; you need to check your contract or other sources for the amount.
 - a. The transportation portion of the T&F fee does not include any costs of marketable condition or other disallowed costs and can be included in a transportation allowance.
 - b. The fractionation fee for this example does not include costs of marketable condition or other disallowed costs and can be included in a processing allowance.

6. Because these NGLs are produced in the San Juan Basin, we will use Mt. Belvieu posted prices to calculate ONRR’s regulatory minimum value (§1206.174(g)(2)(i)(A)). In this example we assume these posted prices to be:

Component	Purity Ethane (C2)	Propane (C3)	Isobutane (iC4)	Normal Butane (nC4)	Natural Gasoline (C5+)
\$/gallon	0.23	0.48	0.88	0.90	0.98

This example walks you through the royalty calculation (including the post-plant transportation and fractionation costs) for Product Code 07 ONLY and shows you how to complete the 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, complete instructions on filing the Form ONRR-2014, and other reporting topics in the [ONRR Reporter and Payor Handbooks](#).



This example only addresses calculating the NGL Value for your reporting. You may have other product codes to calculate and report as well as other transportation and/or processing allowances (which require unbundling) related to them.

Please refer to our other Indian gas valuation examples for more information or email us at royaltyvaluation@onrr.gov.

PC 07 – Natural Gas Liquids (NGLs)

Step 1:

Determine which is higher: ONRR’s regulatory minimum price or the lessee’s price at the plant for each NGL component

- Under §1206.174(g)(2), the reported NGL value must not be less than the regulatory minimum price given in the regulations

Step 1a:

Calculate ONRR’s regulatory minimum price by adjusting the published price for each NGL component. For the San Juan Basin, the regulations at §1206.174(g)(2)(i)(A) specify the minimum price is the commercial price bulletin NGL price at Mt. Belvieu, TX less eight cents:

- Subtract \$0.08 from the published price for ethane (\$0.23/gallon)
 - The regulatory minimum price for ethane is \$0.15/gallon
- Subtract \$0.08 from the published price for propane (\$0.48/gallon)

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- The regulatory minimum price for propane is \$0.40/gallon
- Subtract \$0.08 from the published price for isobutane (\$0.88/gallon)
 - The regulatory minimum price for isobutane is \$0.80/gallon
- Subtract \$0.08 from the published price for normal butane (\$0.90/gallons)
 - The regulatory minimum price for normal butane is \$0.82/gallon
- Subtract \$0.08 from the published price for natural gasoline (\$0.98/gallon)
 - The regulatory minimum price for natural gasoline is \$0.90/gallon

PC 07 ONRR's Regulatory Minimum Price (Step 1a):

ONRR's Regulatory Minimum Price = published price – regulatory adjustment

Ethane Regulatory Minimum Price = \$0.23/gal – \$0.08/gal = \$0.19/gal

Propane Regulatory Minimum Price = \$0.48/gal – \$0.08/gal = \$0.40/gal

Isobutane Regulatory Minimum Price = \$0.88/gal – \$0.08/gal = \$0.80/gal

Normal Butane Regulatory Minimum Price = \$0.90/gal – \$0.08/gal = \$0.82/gal

Natural Gasoline Regulatory Minimum Price = \$0.98/gal – \$0.08/gal = \$0.90/gal

Step 1b:

Calculate the lessee's price at the plant by subtracting the assumed T&F fees from the assumed downstream sales price for each component (see Scenario 1, below, for more information)

- Subtract the T&F fees (\$0.10/gallon) from the downstream sales price for ethane (\$0.19/gallon)
 - The lessee's price at the plant for ethane is \$0.09/gallon
- Subtract the T&F fees (\$0.10/gallon) from the downstream sales price for propane (\$0.56/gallon)
 - The lessee's price at the plant for propane is \$0.46/gallon
- Subtract the T&F fees (\$0.10/gallon) from the downstream sales price for isobutane (\$0.81/gallon)
 - The lessee's price at the plant for isobutane is \$0.71/gallon
- Subtract the T&F fees (\$0.10/gallon) from the downstream sales price for normal butane (\$0.84/gallon)
 - The lessee's price at the plant for normal butane is \$0.74/gallon
- Subtract the T&F fees (\$0.10/gallon) from the downstream sales price for natural gasoline (\$1.03/gallon)
 - The lessee's price at the plant for natural gasoline is \$0.93/gallon

PC 07 Lessee's Price at the Plant (Step 1b):*Lessee's Price at the Plant = downstream sales price – T&F fees**Ethane Price at the Plant = \$0.19/gal – \$0.10/gal = \$0.09/gal**Propane Price at the Plant = \$0.56/gal – \$0.10/gal = \$0.46/gal**Isobutane Price at the Plant = \$0.81/gal – \$0.10/gal = \$0.71/gal**Normal Butane Price at the Plant = \$0.84/gal – \$0.10/gal = \$0.74/gal**Natural Gasoline Price at the Plant = \$1.03/gal – \$0.10/gal = \$0.93/gal***Step 1c:**

Compare ONRR's regulatory minimum price to the lessee's price at the plant and note which is higher:

- For ethane, **ONRR's regulatory minimum price** of \$0.15/gallon is higher than the price at the plant of \$0.09/gallon
- For propane, the **lessee's price at the plant** of \$0.46/gallon is higher than the regulatory minimum price of \$0.40/gallon
- For isobutane, **ONRR's regulatory minimum price** of \$0.80/gallon is higher than the price at the plant of \$0.71/gallon
- For normal butane, **ONRR's regulatory minimum price** of \$0.82/gallon is higher than price at the plant of \$0.74/gallon
- For natural gasoline, the **lessee's price at the plant** of \$0.93/gallon is higher than the regulatory minimum price of \$0.90/gallon

PC 07 Compare ONRR's Regulatory Minimum Price to Lessee's Price at Plant (Step 1c):

NGL Component	ONRR's Regulatory Minimum Price (\$/gal)	Lessee's Price at the Plant (\$/gal)	Higher Price
Ethane	\$0.15	\$0.09	ONRR's regulatory minimum price
Propane	\$0.40	\$0.46	Lessee's price at plant
Isobutane	\$0.80	\$0.71	ONRR's regulatory minimum price
Normal Butane	\$0.82	\$0.74	ONRR's regulatory minimum price
Natural Gasoline	\$0.90	\$0.93	Lessee's price at plant

Step 2:

Calculate the NGL sales value. The total NGL sales value reported on the Form ONRR-2014 is composed of the sales value for each NGL component added together. In this example, some NGL components are valued using ONRR's regulatory minimum price, while others are valued using the lessee's price at the plant.

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When an NGL component is valued using the lessee's price at the plant, that component's value (for reporting the Form ONRR-2014 sales value field) should not be reduced by any of the lessee's actual NGL transportation and fractionation costs. These actual costs should be reported separately as allowances.

Alternatively, when an NGL component is valued using ONRR's regulatory minimum price, the regulatory adjustment (\$0.07/gal or \$0.08/gal, see §1206.174(g)(2)(i)) is not an actual transportation or processing cost and is therefore included in the NGL sales value.

Step 2a:

Calculate the value of NGL components where ONRR's regulatory minimum price was higher than the lessee's price at the plant.

- Identify the components in Step 1c for which ONRR's regulatory minimum price is higher
 - Ethane, isobutane, and normal butane have an ONRR's regulatory minimum price that is higher than the lessee's price at the plant
- Multiply ONRR's regulatory minimum price for ethane (\$0.15/gallon) by the ethane gallons (11,245 gallons)
 - The ethane value is \$1,686.75
- Multiply ONRR's regulatory minimum price for isobutane (\$0.80/gallon) by the isobutane gallons (1,089 gallons)
 - The isobutane value is \$871.20
- Multiply ONRR's regulatory minimum price for normal butane (\$0.82/gallon) by the normal butane gallons (2,772 gallons)
 - The normal butane value is \$2,273.04

PC 07 Value of Components with a Higher ONRR's Regulatory Minimum Price (Step 2a):

Value of Component = ONRR's regulatory minimum price × gallons

Value of Ethane = \$0.15/gal × 11,245 gal = \$1,686.75

Value of Isobutane = \$0.80/gal × 1,089 gal = \$871.20

Value of Normal Butane = \$0.82/gal × 2,772 gal = \$2,273.04

Step 2b:

Calculate the value of NGL components where the lessee's price at the plant was higher than the regulatory minimum price.

- Identify the components in Step 1c for which the lessee's price at the plant is higher
 - Propane and natural gasoline have a lessee's price at the plant higher than the regulatory minimum price

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- Multiply the *downstream sales price* for propane (\$0.56/gallon) by the propane gallons (6,744 gallons)
 - The propane value is \$3,776.64
- Multiply the *downstream sales price* for natural gasoline (\$1.03/gallon) by the natural gasoline gallons (4,236 gallons)
 - The natural gasoline value is \$4,363.08

PC 07 Value of Components with a Higher Lessee’s Price at the Plant (Step 2b):

$$\text{Value of Component} = \text{lessee's price at the plant} \times \text{gallons}$$

$$\text{Value of Propane} = \$0.56/\text{gal} \times 6,744 \text{ gal} = \$3,776.64$$

$$\text{Value of Natural Gasoline} = \$1.03/\text{gal} \times 4,236 \text{ gal} = \$4,363.08$$

Step 2c:

Calculate the total NGL sales value:

- Add the values for the ethane (\$1,686.75), propane (\$3,776.64), isobutane (\$871.20), normal butane (\$2,273.04), and natural gasoline (\$4,363.08)
- The total NGL sales value is \$12,970.71

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

PC 07 Sales value

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

$$\text{PC 07 Sales value} = \$1,686.75 + \$3,776.64 + \$871.20 + \$2,273.04 + \$4,363.08$$

$$\text{PC 07 Sales value} = \$12,970.71$$

Step 3:

Calculate the total NGL sales volume:

- Add the 100% allocation gallon volumes for the ethane (11,245 gallons), propane (6,774 gallons), isobutane (1,089 gallons), normal butane (2,772 gallons), and natural gasoline (4,236 gallons)
- The total NGL sales value is 26,086 gallons



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 Volume (Step 3):*PC 07 Sales volume*

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

$$PC\ 07\ Sales\ value = 11,245\ gal + 6,774\ gal + 1,089\ gal + 2,2772\ gal + 4,236\ gal$$

$$PC\ 07\ Sales\ volume = 26,086\ gal$$
Step 4:

Determine the Royalty Value Prior to Allowances (RVPA):

- Multiply the sales value from Step 2c (\$12,970.71) by the royalty rate (18%)
- The RVPA is \$2,334.73

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

$$PC\ 07\ RVPA = \text{sales value} \times \text{royalty rate}$$

$$PC\ 07\ RVPA = \$12,970.71 \times 0.18$$

$$PC\ 07\ RVPA = \$2,334.73$$

Here is what the royalty reporting looks like so far:

Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
07	26,086		\$12,970.71	\$2,334.73			

Transportation Allowance

In this example, we assume there are no pre-plant transportation costs. Also, we assume the post-plant transportation fee does not include marketable condition or other disallowed costs and can be claimed as an allowance.

Only the post-plant transportation costs for NGL components with a higher lessee's price at the plant will contribute to the transportation allowance. In this example, those components are propane and natural gasoline. The lessee's actual transportation costs for moving these components may be included in a transportation allowance. The other components, however, will have no transportation allowance reported, because they are valued using ONRR's regulatory minimum price (which already includes an adjustment).

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10/12/2022

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 where the lessee's price at the plant is higher:

- Locate the components from Step 2a in the PC 07 - NGLS section

where the lessee's price at the plant is higher. These components are propane and natural gasoline.

- Add the gallons of propane (6,774 gallons) and gallons of natural gasoline (4,236 gallons) to get the total gallons where the lessee's price at the plant is higher.
- The total gallons with a higher lessee's price at the plant is 11,010 gallons

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

Total gallons = propane gallons + natural gasoline gallons

Total gallons = 6,774 gallons + 4,236 gallons

Total gallons = 11,010 gallons

Step 2:

Calculate the transportation allowance:

- In this example, we assume that NGL post-plant transportation fee is allowable, so costs associated with this fee can be included in the transportation allowance *for components with a higher lessee's price at the plant.*
- Multiply the total NGL gallons from Step 1 (11,010 gallons) by the NGL post-plant transportation fee (\$0.06/gallon), and then by the royalty rate (18%)
- The transportation allowance is \$118.91

Transportation Allowance for the Allowed Post-Plant Transportation Costs (Step 2):

Transportation allowance

= NGL gallons × post – plant transportation fee × royalty rate

Transportation allowance = 11,010 gallons × \$0.06/gal × 0.18

Transportation allowance = \$118.91

Step 3:

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

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Except as provided in paragraphs (c)(2) and (3) of this section, your transportation allowance deduction for each sales type code may not exceed 50 percent of the value of the unprocessed gas, residue gas, or gas plant product. For purposes of this section, natural gas liquids are considered one 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% transportation allowance limit for NGLs:

- Locate the NGL Royalty Value Prior to Allowances (RVPA) amount from Step 5 of PC 07 - NGLs (\$2,334.73)
- Multiply the RVPA of the NGLs (\$2,334.73) by 50% to find the limit of \$1,167.37

Transportation Allowance Limit Check (Step 3a):
Transportation allowance limit for NGLs = NGL RVPA x limit %
Transportation allowance limit for NGLs = \$2,334.73 x 50%
Transportation allowance limit for NGLs = \$1,167.37

Step 3b:

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

- Locate the transportation allowance for NGLs from Step 2 (\$118.91)
- \$118.91 is less than \$1,167.36 and is therefore within the transportation allowance limit

Transportation Allowance Limit Check (Step 3b):
NGL allowance < Transportation allowance limit
NGLs transportation allowance: \$118.91 < \$1,167.37

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

Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
07	26,086		\$12,970.71	\$2,334.73	-\$118.91		

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 10/12/2022

Processing Allowance

You may only take a processing allowance against PC 07 – NGLs or other gas plant products, if recovered. In this example, we assume the only processing costs are the fractionation costs. Also, we assume the fractionation fee does not include marketable condition or other disallowed costs and can be claimed as an allowance.

Only the fractionation costs for NGL components with a higher lessee's price at the plant will contribute to the processing allowance. In this example, those components are propane and natural gasoline. The lessee's actual costs for fractionating these components may be included in a processing allowance. The other components, however, will have no processing allowance reported, because they are valued using ONRR's regulatory minimum price (which already includes an adjustment).

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 with a higher lessee's price at the plant:

- Locate the total gallons valued using the downstream sales price from Step 1 of the Transportation

Allowance (11,010 gallons)

Step 2:

Calculate the processing allowance

- In this example, we assume that fractionation costs are allowable, so the cost of the fractionation can be included in the processing allowance *for components with a higher lessee's price at the plant.*
- Multiply the total NGL gallons from Step 1 (11,010 gallons) by the NGL fractionation fee (\$0.04/gallon), and then by the royalty rate (18%)
- The processing allowance is \$79.27

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

$$\text{Processing allowance} = \text{NGL gallons} \times \text{fractionation fee} \times \text{royalty rate}$$
$$\text{Processing allowance} = 11,010 \text{ gallons} \times \$0.04/\text{gal} \times 0.18$$
$$\text{Processing allowance} = \$79.27$$

Step 3:

Ensure the processing allowance does not exceed the 66 ²/₃% 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.

The processing allowance deduction based on an individual product may not exceed 66²/₃ percent of the value of each gas plant product determined under §1206.174. Before

you calculate the 66²/₃ percent limit, you must first reduce the value for any transportation allowances related to post-processing transportation authorized under §1206.177.

You may only take your reasonable, actual, allowed costs up to 66 ²/₃% of the total NGL value, first reduced for post-plant transportation.

Step 3a:

Reduce the NGL value for post-processing (post-plant) transportation costs and calculate the limit:

- Subtract the post-plant NGL transportation (\$118.91) from the NGL Royalty Value Prior to Allowances from Step 5 of PC 07 - NGLs (\$2,334.73) to get \$2,215.82
- Multiply the reduced amount (\$2,215.82) by 66 ²/₃% (0.66667)
- The limit is \$1,477.22

Processing Allowance Limit Check (Step 3a):

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

Processing allowance limit = (\$2,334.73 – \$118.91) x 0.66667

Processing allowance limit = \$2,215.82 x 0.66667

Processing allowance limit = \$1,477.22

Step 3b:

Compare the processing allowance to the limit calculated above:

- Compare the processing allowance limit from Step 3a (\$1,477.22) to the processing allowance in Step 2 (\$79.27)
- \$79.27 is less than \$1,477.22 and is therefore within the processing allowance limit

Processing Allowance Limit Check (Step 3b):

Total processing allowance < processing allowance limit

\$79.27 < \$1,477.22

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

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Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
07	26,086		\$12,970.71	\$2,334.73	-\$118.91	-\$79.27	

Royalty Value Less Allowances



If the NGL transportation and processing allowance total exceeds the RVPA (which is possible), you can only deduct 99% of the RVPA as a maximum as you cannot reduce the royalties to \$0.

In this example, we assume there are no pre-plant transportation or additional processing costs. The only cost included in the transportation allowance is for post-plant transportation, and the only cost included in the processing allowance is for fractionation. These costs were only included for the components valued using the lessee's price at the plant. If you have pre-plant transportation costs

and/or additional processing costs and have unbundled these costs to ensure no marketable condition costs are included, these unbundled costs may be included as additional transportation and/or processing allowances. If you have questions about unbundling or allowances, you may contact us at onrrunbundling@onrr.gov or royaltyvaluation@onrr.gov.

Step 1:

Calculate the royalty value less allowances (RVLA):

- Locate the RVPA for Product Code 07 from Step 5 of PC 07 – NGLs (\$2,334.73)
- Subtract the transportation allowance from Step 2 of transportation allowance (\$118.91) and the processing allowance from Step 2 of processing allowance (\$79.27)
- The RVLA for Product Code 07 is \$2,136.55

Royalty Value Less Allowances for PC 07 (Step 1):

PC 07 RVLA = RVPA – Transportation allowance – Processing allowance

$$PC\ 07\ RVLA = \$2,334.73 - \$118.91 - \$79.27$$

$$PC\ 07\ RVLA = \$2,136.55$$

The final reporting looks like this:

Prod Code	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
07	26,086		\$12,970.71	\$2,334.73	-\$118.91	-\$79.27	\$2,136.55

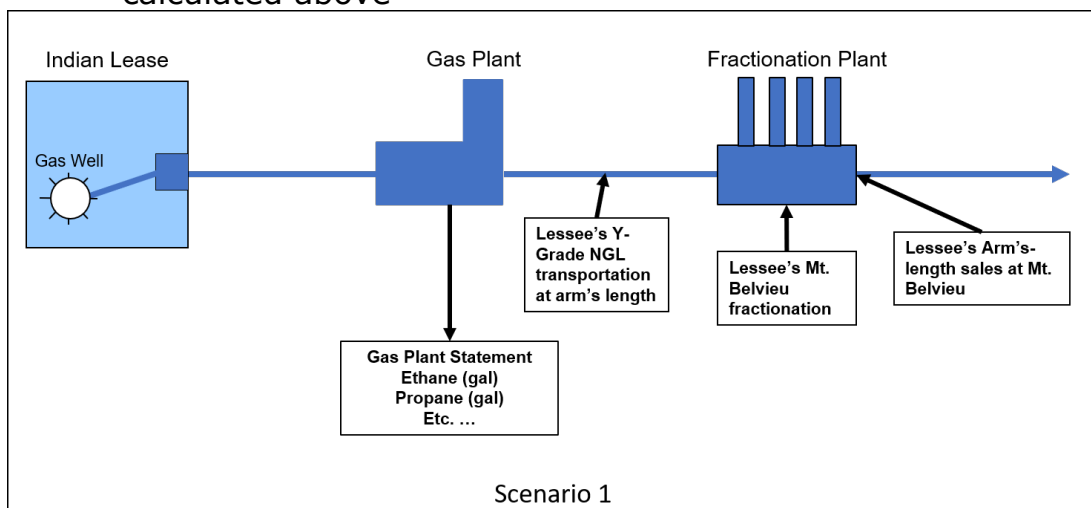
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Scenarios

There are three common contractual scenarios, and determining which scenario applies to your situation will help determine how to calculate the lessee's price at the plant (which is then compared to ONRR's regulatory minimum price). Depending on the scenario, you may need to gather several documents, which may include contracts and/or statements from the gas plant, the NGL purchaser, the NGL transporter, and/or the NGL fractionator.

Scenario 1:

- The lessee retains title to its NGLs extracted at a gas plant.
- The lessee pays actual costs of post-plant transportation and fractionation (T&F fees) from the gas plant to a downstream sales point.
- The lessee sells the NGLs at a point *downstream* of the gas processing plant (e.g., Mt. Belvieu).
- The lessee's price at the gas plant is the downstream sales price *minus* the actual T&F fees.
- If the lessee's price at the gas plant is higher than ONRR's regulatory minimum price for an NGL component, the price used to calculate the sales value of that NGL component is the downstream sales price. However, if ONRR's regulatory minimum price is higher, it is used to calculate the sales value of that component.
 - The Form ONRR-2014 Sales Value for PC 07 NGLs is the combined sales value of the individual NGL components as calculated above

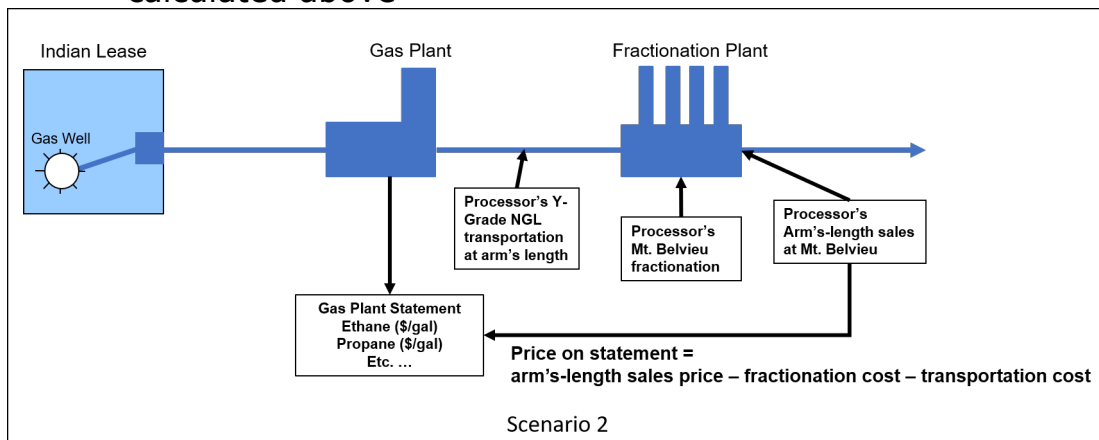


Scenario 2:

- The lessee sells the NGLs to the processor at the gas plant.

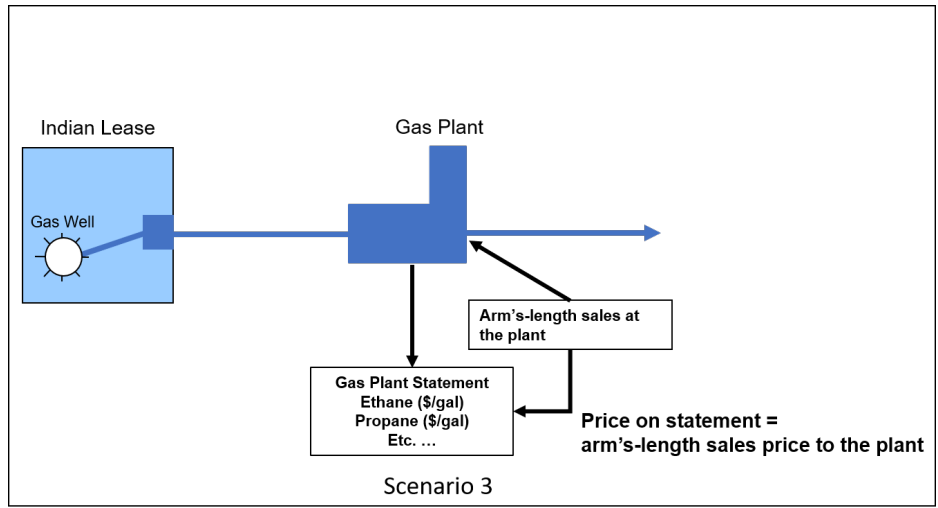
This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

- The lessee's proceeds are based on the processor's arm's-length sales price at a downstream location less the processor's transportation and fractionation (T&F) fees.
- The lessee's price at the gas plant *is* the price shown on the gas plant statement, since the T&F fees have already been netted out from the downstream sales price.
- If the lessee's price at the gas plant is higher than ONRR's regulatory minimum price for an NGL component, the price used to calculate the sales value of that NGL component is the downstream sales price. However, if ONRR's regulatory minimum price is higher, it is used to calculate the sales value of that component.
 - The Form ONRR-2014 Sales Value for PC 07 NGLs is the combined sales value of the individual NGL components as calculated above



Scenario 3:

- The lessee sells the NGLs to the processor at the gas plant.
- The lessee's proceeds are based on the arm's-length contract price at the plant.
- The lessee's price at the gas plant *is* the price shown on the gas plant statement.
- The processor provides no breakdown of how it calculates the contract price.
- If the lessee's price at the gas plant is higher than ONRR's regulatory minimum price for an NGL component, the price used to calculate the sales value of that NGL component is the sales price at the gas plant. However, if ONRR's regulatory minimum price is higher, it is used to calculate the sales value of that component.
 - The Form ONRR-2014 Sales Value for PC 07 NGLs is the combined sales value of the individual NGL components as calculated above



This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Sales Invoice
Liquids Settlement Summary

Paystation:	Location:	Business Month: March
Contract:	Pipeline: 01	Production Month: March
Operator:	Account:	Contract: 1.00000000
Package:	PVR Responsibility:	

Liquids Settlement		Ethane	Propane	Iso Butane	Normal Butane	Natural Gasoline	NGL Totals
Paystation	Theo Gallons	13,229	7,494	1,122	2,858	4,279	28,982
	(A) Allocated Volume	11,245	6,774	1,089	2,772	4,236	(E) 26,086
	Net Share	5.00	5.00	5.00	5.00	5.00	
	Settlement Volume	9,558	5,732	926	2,356	3,601	22,173
	Taken in Kind	0	0	0	0	0	0
Settle	Product Sold	9,558	5,732	926	2,356	3,601	22,173
	(B) Price	\$0.19	\$0.56	\$0.81	\$0.84	\$1.03	
	Settle Amount	\$1,816.07	\$3,210.14	\$749.78	\$1,979.21	\$3,708.62	\$11,463.81

Fees/Taxes	Volume	Rate	Amount
NGL Transportation Fee	26,806	(C) \$0.06/gal	\$1,565.16
NGL Fractionation Fee	26,806	(D) \$0.04/gal	\$1,043.44
Total Fees/Taxes			\$2,608.60
Net Settlement			\$16,145.66