



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165



IN REPLY REFER TO

ARD/RB

Mail Stop 3132

JUN 2 2000

Dear Reporter:

Previous Dear Reporter letters dated February 3, 1995, and January 30, 1997, from the Minerals Management Service (MMS) provided offshore operators and payors (reporters) guidance on reporting drip (i.e., pipeline condensate, retrograde condensate, drip condensate, drip liquid, scrubber/pipeline drip) to the Production Accounting and Auditing System (PAAS) and the Auditing and Financial System (AFS). Since that time, MMS has received requests from reporters for additional information.

This letter provides further clarification for reporting on the Report of Sales and Royalty Remittance (Form MMS-2014) (Enclosure 1) and describes a simplified Oil and Gas Operations Report (OGOR) reporting process (Enclosure 2) for all operators participating in an Offshore Minerals Management (OMM) approved retrograde system. The changes to the OGOR reporting procedures are effective with the May 2000 report period. Retroactive reporting will not be required unless the properties and/or facilities are involved in an MMS audit or an outstanding AFS/PAAS comparison issue. In these instances, you may be advised to modify your reports accordingly.

There are currently six retrograde systems that have been approved by OMM as follows:

System Name	System Number	Sales Meter
Bayou Black	26.5	20171092650
Iowa/Tetco	9.0	20170530900
Trunkline	25.0	20171012500
Delta/VGS	35.1	20170753510
Discovery	34.5	20170573450
Bluewater	28.0	21171132800

Drip Reporting Issue

The MMS defines drip as the portion of a natural gas stream that liquefies downstream of the approved royalty measurement device, i.e., Facility Measurement Point (FMP), and is extracted at an onshore separation facility. At the onshore separation facility, liquids, including the drip volume, are separated from the gas stream prior to the inlet of the gas plant. Therefore, the volume of oil/condensate measured at the outlet of the onshore separation facility usually is greater than the oil/condensate volume measured at the offshore FMPs, and the volume of gas will be less, by the equivalent barrels of recovered drip.

OGOR Reporting

The MMS is revising prior instructions to report disposition of gas production, drip sales, and drip inventory for reporters participating in any approved retrograde system (Enclosure 2). Effective with the May 2000 report period, reporters are required to report Disposition Code 11 (Transferred to Facility) on the OGOR-B for all gas delivered into an approved retrograde system. Even if the gas is not transferred to a gas plant, you must report it in this manner using Disposition Code 11. The MMS has modified the definition of Disposition Code 11 (Enclosure 3) to accommodate this change in reporting procedures and to help eliminate unnecessary AFS/PAAS comparison exceptions.

To further reduce AFS/PAAS comparison problems, reporters should no longer report drip sales on OGOR-C with Disposition Codes 09 (Sales, Not Subject to Royalty) or 16 (Pipeline/Scrubber Condensate). Reporters must report drip sales only on Part B with an offsetting Disposition Code 13 (Transferred from Facility). Those operators that currently maintain a separate drip inventory should zero out the Ending Inventory on the OGOR by using a negative volume reported as Disposition Code 42 (Gathering System Gain or Loss). Also on the OGOR, enter a remark in the comment field that reporting drip inventory is no longer required by MMS. You should continue to report your oil/condensate formation production (free condensate) inventory on OGOR-C.


The MMS will make these changes to the next release of the *PAAS Reporter Handbook--Lease, Facility/Measurement Point, and Gas Plant Operators, Special Reporting Situations*, Example 9-4. If you have any questions on reporting issues, please contact your Error Correction Contact at (800) 525-7922.

For valuation questions, please refer to the January 30, 1997, Dear Reporter letter, which provides guidance for the valuation of drip when you relinquish your rights to market the drip to the transporter and receive an MMBtu equivalent value of gas. All Dear Reporter letters can be viewed at the MMS, Royalty Management Program Internet site:

<http://www.rmp.mms.gov/DearRep.htm>

If you still have questions regarding how to value drip, please contact the MMS Royalty Valuation Division at (303) 275-7201.

Sincerely,


Michael A. Miller
Chief, Accounting and
Reports Division

Enclosure(s)

How to Report Royalty (Transaction Code 01) on Form MMS-2014

The products reported on the Form MMS-2014 depend on where the gas is sold and whether or not you retain title to your drip. How you value the products reported depends on: (1) where the gas is sold, (2) whether or not you retain title to your drip, (3) whether you retain title to your drip and receive actual volumes of liquid barrels or an MMBtu equivalent of gas, and (4) the terms of your transportation contract with the pipeline company (i.e., the nature of the sale, arm's length or non-arm's length conditions).

If a portion of your gas is sold as unprocessed gas and the other portion is transferred to a gas plant, you must apply the correct reporting procedure to each volume that is sold or transferred. The table below illustrates how to report royalties correctly on the Form MMS-2014.

See the January 30, 1997, Dear Reporter letter for guidance on valuing drip or call the Royalty Valuation Division, (303) 275-7201.

Title of Drip →	Relinquish Title	Retain Title as Liquid Barrels or an Equivalent Volume of Gas
<p>Sales Point Sale at Offshore Platform (lease) or any point prior to the Separation Facility, i.e., Direct Sale</p>	<p>(Example 1) Since the gas was sold prior to the drip falling out of the gas stream, report the entire gas sales volume as PC 04 using the volume and quality measured at the approved offshore sales FMP.</p>	<p>(Example 2) The payor retains the rights to the drip as either the actual barrels of drip or an equivalent volume of gas. In both cases, the payor receives an allocated volume of drip on their statement.</p> <ul style="list-style-type: none"> • Report the allocated barrels of drip as PC 05. (Whether your drip was converted to MMBtu's or you received barrels, report the drip allocation on your Form MMS-2014 as royalty due in barrels using PC 05.) • If your gas statement reflects an allocation based on the original platform-measured volume, then convert the allocated barrels of drip to an equivalent Mcf volume and subtract that volume from the gas volume on your allocation statement. Report the reduced gas volume using PC 04*. • If your gas allocation statement reflects the onshore-metered volume (volume after the extraction of the drip), report the allocated volume on your gas statement using PC 04*.
<p>Sale after Separation Facility (but prior to Gas Plant)</p>		<p>(Example 3) Once the drip is extracted, the producer receives the actual barrels of drip or the producer's gas volume is made whole with an equivalent volume of gas. In both cases, the producer receives a statement showing an allocated volume of drip.</p> <ul style="list-style-type: none"> • Report the allocated barrels of drip as PC 05. (Whether your drip was converted to MMBtu's or you received barrels, report the drip on your Form MMS-2014 as royalty due in barrels using PC 05.) • Report the volume of gas from your Gas Allocation Statement as PC 04. (The volume shown on the allocation statement should be a reduced volume that reflects the offshore-metered volume minus the extracted drip.)*
<p>Gas Transfer</p>	<p>N/A</p>	<p>(Example 4)</p> <ul style="list-style-type: none"> • Report the allocated barrels of drip as PC 05. • Report the residue gas as PC 03 and gas plant products as PC 07.

Product Code = PC

PC 03 = Residue Gas (Processed Gas)

PC 04 = Unprocessed (Wet) Gas

PC 05 = Drip Condensate

PC 07 = NGL's (Processed Gas)

* You are allowed to reduce your gas volume only once. If your allocation statement shows the platform-metered volume as the sales volume, you will need to calculate the gas reduction yourself. To reduce your gas volume by the equivalent barrels, call the system allocator for the gas-to-condensate conversion factor to apply. (Gas is reported as an Mcf volume on the MMS-2014. Reduce the offshore measured volume as Mcf's.) If your statement shows the onshore-metered volume as the sales volume, the allocated drip barrels have already been subtracted. DO NOT reduce your gas volume a second time.

How to Report Your Production Correctly on the OGOR

OGOR			
Sales Point	Part A	Part B	Part C
Sale at Offshore sales FMP (or any point prior to onshore Separation Facility); i.e., Direct Sales	<ul style="list-style-type: none"> Report actual volume of oil and gas production as measured at the approved offshore sales FMP. <u>Do not</u> increase the oil production volume to reflect the allocated barrels of drip. The drip is contained in the gas volume. 	<ul style="list-style-type: none"> Report DC 11 for the entire gas volume measured at the offshore FMP (excluding lease use, flare, etc.). If you have no contract with a gas plant for processing, use FMP 0217071DRIP. <p>IF:</p> <ul style="list-style-type: none"> royalty is not due on the drip, report DC 09 for the allocated barrels of drip sold in the report month (use a positive volume). royalty is due on the drip, report DC 16 for the allocated barrels of drip sold in the report month (use a positive volume). <ul style="list-style-type: none"> Report an offsetting negative volume as DC 13; i.e., this should be the same volume as DC 09 or DC 16, only negative. 	<ul style="list-style-type: none"> Report oil/free condensate inventory data. <u>Do not include drip</u> inventory volumes or sales on Part C.
Sale after Separation Facility (but prior to Gas Plant).	<ul style="list-style-type: none"> Report actual volume of oil and gas production as measured at the approved offshore FMP. <u>Do not</u> increase the oil production volume to reflect the allocated barrels of drip. The drip is contained in the gas volume. 	<ul style="list-style-type: none"> Report DC 11 for the entire gas volume measured at the offshore FMP (excluding lease use, flare, etc.) If you have no contract with a gas plant for processing, use FMP 0217071DRIP. Since royalty is due on the drip, report DC 16 for the allocated barrels of drip sold in the report month (use a positive volume). Report an offsetting negative volume as DC 13; i.e., this should be the same volume as DC 16, only negative. 	<ul style="list-style-type: none"> Report oil/free condensate inventory data. <u>Do not include drip</u> inventory volumes or sales on Part C.
Gas Transfer	<ul style="list-style-type: none"> Report actual volume of oil and gas production as measured at the approved offshore FMP. <u>Do not</u> increase the oil production volume to reflect the allocated barrels of drip. The drip is contained in the gas volume. 	<ul style="list-style-type: none"> Report DC 11 for gas volume measured at the offshore FMP (excluding lease use, flare, etc.). Use the FMP for the gas plant that received the gas. Since royalty is due on the drip, report DC 16 for allocated barrels of drip sold in the report month. Use a positive volume. Report an offsetting negative volume as DC 13; i.e., this should be the same volume as DC 16, only negative. 	<ul style="list-style-type: none"> Report oil/free condensate inventory data. <u>Do not include drip</u> inventory volumes or sales on Part C.

DC = Disposition Code

DC 09 = Sales (Not Subject to Royalty)

DC 13 = Transferred from Facility (must be negative)

DC 11 = Transferred to Facility

DC 16 = Pipeline Drip/Scrubber Production

Disposition Code

- 11 Transferred to Facility. This code is used when gas production is transferred to a gas plant facility for processing. This code is also used when gas production is transferred to a separation facility where liquids are extracted from the gas stream and the operator receives an allocation for drip/retrograde condensate.

For Retrograde Systems (pipeline systems where operators receive an allocation for drip/retrograde condensate), there are three scenarios to determine what gas plant number to use on your OGOR-B. If the gas plant number assigned for scenarios #2 or #3 is not known, please contact your error correction representative.

1. If all the gas production is sold PRIOR to the Drip being extracted from the gas stream, you must use the gas plant number "0217071DRIP," assigned by MMS specifically for this reporting situation.
2. If all the gas production is transferred to a gas plant for processing, you must use the assigned MMS facility measurement point number for the gas plant that is processing your production.
3. If the gas production is a combination of #1 and #2 (i.e., a portion of the total production was sold and a portion was transferred to a gas plant for processing), the royalty due will be a combination of product codes (i.e., unprocessed gas (04), residue (03) and other gas plant products (07)), and you must use the facility measurement point number assigned to the gas plant located at the end of the pipeline.

This code requires metering point and gas plant number when used on the OGOR-B. This code also requires a Btu. It can be used as an adjustment code on the OGOR-C.