

**ENTERPRISE - CARLSBAD GATHERING SYSTEM AND PLANT
UNBUNDLING COST ALLOCATION (UCA)**

Charges on the Carlsbad system are explicitly identified by Enterprise for various services including gathering, dehydration, compression and product extraction. Dehydration and compression charges are not allowed. A portion of the gathering and products extraction fees are allowed as specified below. Enterprise bills separately for the James Ranch and Burton Flats products extraction fees are allowed as specified below. Enterprise bills separately for the James Ranch and Burton Flats compressors, these costs together with any associated fuel are not allowed.

CARLSBAD GATHERING SYSTEM COST ALLOCATION

YEAR	2004	2005	2006	2007
Allowed Costs	93.4%	85.1%	90.5%	90.0%
Disallowed Costs	6.6%	14.9%	9.5%	10.0%
	100.0%	100.0%	100.0%	100.0%

CARLSBAD PLANT COST ALLOCATION

YEAR	2004	2005	2006	2007
Allowed Costs	0.0%	0.0%	8.2%	8.2%
Disallowed Costs	100.0%	100.0%	91.8%	91.8%
	100.0%	100.0%	100.0%	100.0%

**CARLSBAD GATHERING SYSTEM AND DEW POINT PLANT
SIMPLIFIED EXAMPLE FOR 2007 UCA**

This example does not represent all contractual situations or include all transportation and processing fees that may be charged.

Royalty Rate:	12.5%	Wellhead Volume:	1,037 MMBtu
Bundled Gathering (Transport) Ra	\$0.26 Per MMBtu	Residue Volume:	1,000 MMBtu
Bundled Processing Rate:	\$0.10 Per MMBtu	Plant Shrink Volume:	7 MMBtu
Residue Gas Price:	\$4.00 Per MMBtu	Field Fuel:	20 MMBtu
NGL Price:	\$1.60 Per Gallon	Plant Fuel:	10 MMBtu
NGL Volume:	2,000 Gross Gallons		1,037 Ties to Wellhead MMBtu
			1,017 Calculated Inlet MMBtu

VOLUME AND VALUE REPORTING

Residue Volume (PC 03)

Residue MMBtu	Total Plant Fuel MMBtu	Unbundling Plant Fuel Allocation		Disallowed/ Allowed Plant Fuel MMBtu (B * C)	Total Residue MMBtu (A + E)
A	B	C	D	E	F
1,000	10	92% Non-Allowed		9	1,009
	10	8% Allowed		1	
		100.00%		10	

Residue Value (PC 03)

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
1,009	\$4.00	\$4,036.00

The calculation excludes the plant fuel allowed royalty free 202.151(b). Therefore, you may not take plant fuel as a processing allowance.

NGL Value (PC 07)

Gallons	NGL Price	Sales Value (A * B)
A	B	C
2,000	\$1.60	\$3,200.00

Field Fuel Value (PC 15)

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
20	\$4.00	\$80.00

ALLOWANCE REPORTING

Transportation Allowance

	MMBtu	Rate/Price	Total Transportation Cost (A*B)	Allowed Unbundling Cost Allocation	Allocated Transportation Cost (C * D)	Royalty Rate	Total Transportation Allowance (E * F)
	A	B	C	D	E	F	G
*Transportation Rate Cost	1,017	\$0.26	(\$264.42)	90.0%	(\$237.98)		
Field Fuel Value	20	\$4.00	(\$80.00)	90.0%	(\$72.00)		
**James Ranch Compression			(\$9.00)	0.0%	\$0.00		
**Burton Flats Compression			\$0.00	0.0%	\$0.00		
			<u>(\$353.42)</u>		<u>(\$309.98)</u>	12.50%	(\$38.75)
							<u>(\$38.75)</u>

* Review your contract to determine if processing cost is based on inlet or wellhead volume and revise calculation accordingly.

For this example, the transportation cost is based on plant inlet volume.

** Enterprise bills separately for the James Ranch and Burton Flats compressors; these costs together with any associated fuel are not allowed.

ALLOWANCE REPORTING

Transportation Allowance to each product based on MMBtu.

Product Code	MMBtu	Allocation based on MMBtu (B/B Total)	Allowed Transportation Cost	Royalty Rate	Total Transportation Allowance (D * E)	Transportation Allowance Allocated among Products (C * F)
A	B	C	D	E	F	G
03	1,009	97.39%				(\$37.74)
07	7	68.00%				(\$0.26)
15	20	1.93%				(\$0.75)
	<u>1,036</u>	<u>100%</u>	(\$309.98)	12.5%	(\$38.75)	<u>(\$38.75)</u>

Processing Allowance PC 07

MMBtu	Bundled Processing Rate	Total Processing Cost (A * B)	Allowed Unbundling Cost Allocation	Allowed Processing Cost (C * D)	Royalty Rate	Allowed Processing Allowance (E * F)
A	B	C	D	E	F	G
1,017	\$0.10	(\$101.70)	8.20%	(\$8.34)	12.5%	(\$1.04)

* Review your contract to determine if processing cost is based on inlet or wellhead volume and revise calculation accordingly.

For this example, the processing cost is based on inlet volume.

The New Mexico Gas Processors Tax, if charged to producer, is 100% allowed as a processing cost and must be multiplied by the royalty rate in order to include in the processing allowance.

ROYALTY REPORTING

Product Code/ Product	NGL Sales Volume (Gal)	Gas Sales Volume (MMBtu)	Sales Value	Royalty Value Prior to Allowances (D * 12.5%)	Transportation Allowance	Processing Allowance	Royalty Value Less Allowances (E + F + G)
A	B	C	D	E	F	G	H
03 Residue		1,009	\$4,036.00	\$504.50	(\$37.74)		\$350.32
07 Natural Gas Liquids	2,000		\$3,200.00	\$400.00	(\$0.26)	(\$1.04)	\$237.49
15 Field Fuel		20	\$80.00	\$10.00	(\$0.75)		\$36.54
						Royalty Due ONRR	<u>\$624.35</u>

For Percentage-of-Proceeds or Keepwhole agreements, you must apply the UCAs to determine the allowed fuel, transportation, and processing allowances.

Note to Reporters:

If you need assistance with royalty reporting, contact your representative with ONRR Financial Management.

The listing of Financial Management contacts is located at:

<http://www.onrr.gov/ReportPay/PDFDocs/royassign.pdf>