

# Oil Transportation Allowance Report Form MMS-4110

|                       |
|-----------------------|
| For ONRR Use Only:    |
| 4 FOR PAYOR USE ONLY: |

1 Payor Name \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

2 Payor Code   
3 Report Type

5 Reporting Period \_\_\_\_\_ to \_\_\_\_\_  
mm/dd/ccyy mm/dd/ccyy mm/dd/ccyy mm/dd/ccyy

| 6  | 7            | 8                | 9            | 10   | 11 Prior Period Actual Data |                               |                                | 12 Current Period Estimated Data |                               |                                |
|----|--------------|------------------|--------------|--|-----------------------------|-------------------------------|--------------------------------|----------------------------------|-------------------------------|--------------------------------|
|    |              |                  |              |  | a                           | b                             | c                              | a                                | b                             | c                              |
|    | Lease Number | Agreement Number | Product Code | Arm's-Length/<br>Non-Arm's-Length<br>Indicator | Royalty<br>Quantity         | Allowance<br>Rate Per<br>Unit | Royalty<br>Allowance<br>Amount | Royalty<br>Quantity              | Allowance<br>Rate Per<br>Unit | Royalty<br>Allowance<br>Amount |
| 1  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 2  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 3  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 4  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 5  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 6  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 7  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 8  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 9  |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 10 |              |                  |              |  |                             |                               |                                |                                  |                               |                                |
| 11 |              |                  |              |  |                             |                               |                                |                                  |                               |                                |

|                                  |  |            |  |            |
|----------------------------------|--|------------|--|------------|
| 13 Page Total                    |  | XXXXXXXXXX |  | XXXXXXXXXX |
| 14 Report Total (Last Page Only) |  | XXXXXXXXXX |  | XXXXXXXXXX |

If more lines are needed, attach additional pages of Form MMS-4110

I have read and examined in this report and, to the best of my knowledge, they are accurate and complete.

Name (First, Middle Initial, Last) (typed or printed) \_\_\_\_\_ Date: \_\_\_\_\_

Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Preparer: \_\_\_\_\_ Telephone Number: \_\_\_\_\_

This information should be considered (Please check one)  Proprietary  Nonproprietary

Paperwork Reduction Act of 1985 (PRA) Statement: The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to determine product valuation and to ensure that royalties are paid properly. The ONRR uses the information to evaluate the reasonableness of allowances claimed. Responses are required to obtain a benefit. Proprietary information is protected in accordance with standards established by the Federal Oil and Gas royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average 5 hours per response, including the time for reviewing instructions, gathering, and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Office of Natural Resources Revenue, Rule & Regs Team P.O. Box 25165 Denver, CO 80225-0165

# Oil Transportation Allowance Report Form MMS-4110

## General Instructions

This form will be used to determine and report the costs of transporting oil under 30 CFR 1206.57. Allowable transportation costs are: (1) arm's-length based allowances--allowable costs under an arm's-length contract; and (2) non-arm's-length based allowances--operating and maintenance expenses, overhead, and either depreciation and a return on undepreciated capital investment or a cost equal to the initial capital investment in the transportation system multiplied by Standard and Poor's BBB rating. Allowable costs divided by lease production is the transportation allowance rate.

In accordance with 30 CFR 1206.56, a payor may deduct from royalty payments the reasonable, actual costs incurred by the lessee to transport oil to a point off the lease. When lease production contains more than one product you cannot deduct the cost of transporting non-royalty bearing production without ONRR approval.

For transportation costs incurred under arm's-length conditions, Schedule 1 will be used to determine the allowance and will be submitted to ONRR with Page 1 of Form MMS-4110. For transportation costs incurred under other than arm's-length conditions or when transportation costs are a combination of arm's-length and non-arm's-length costs, Schedules 1, 1A, 1B, and 1C, as appropriate, will be used to determine the allowance and will be submitted to ONRR with Page 1 of Form MMS-4110.

**Requirements:** A transportation allowance may be claimed retroactively for a period of not more than 3 months prior to the first day of the month that Form MMS-4110 is filed with the ONRR. Unless, we approve a longer period upon a showing of good cause by the lessee. After the initial reporting period lessees must submit Form MMS-4110 within 3 months after the end of the calendar year.

### **Definitions: For Purposes of this report**

**Sale:** The disposition of oil under arm's-length contract, non-arm's-length contract, or no contract situation.

**Transportation facility:** A physical system associated with the transportation of oil from the lease to a point of disposition remote from the lease.

**Transportation segment:** Any mode of transportation from one point to another for which the payor can associate unique, identifiable costs. A transportation segment may be part of the total transportation facility or may constitute the entire facility. Examples of a transportation segment would be an origin-to-destination pipeline owned by the lessee to transport the oil to a point on a third-party pipeline through which the oil is transported under an arm's-length contract to the sales point.

### **Forms:**

**Form MMS-4110 Page 1,** is used to report the actual allowance amounts claimed during the reporting period.

**Form MMS-4110 Schedule 1,** is used to accumulate segment costs and to compute the allowance rate for a transportation facility.

**Form MMS-4110 Schedule 1A,** summarizes operating, maintenance, and overhead costs for a non-arm's-length or no contract transportation segment.

**Form MMS-4110 Supplemental Schedule 1A,** is used to detail operating, maintenance, and overhead costs that could not be shown on Schedule 1A because of its limited space.

**Form MMS-4110 Schedule 1B,** summarizes depreciation and undepreciated capital investment costs for a non-arm's-length or no contract transportation segment.

# Oil Transportation Allowance Report Form MMS-4110

## Line-by-Line Instructions

1. Enter the payor name and address used to report royalties and transportation deductions on Form MMS-2014.
2. Enter the same payor codes as used on Form MMS-2014.
3. Enter the report type indicator as follows:
  - “1” if this is an initial report for the transportation facility (only column 12 will be completed.)
  - “2” if this is a follow up form to report the reporting period actual data and current period estimated data (both columns 11 and 12 must be completed); or
  - “3” if this is a corrected report to correct previously reported data. A corrected report requires a two-line entry. The first line reverses the original entry using a minus sign (-) in columns 11a, 11b, 11c, 12a, 12b, and 12c, as applicable, and the second line shows the correct entry.
4. Reserved for payor comment.
5. Enter as the reporting period the period covered by the actual cost data for the transportation allowance being reported in column 11 (if applicable). Enter as the reporting period the period covered by the estimated costs data being reported in column 12. The reporting period will be: (a) for the initial reporting period, beginning the month the lessee is first authorized to deduct a transportation allowance and ending at the end of the calendar year or when the transportation terminates, whichever is earlier, or (b) after the initial reporting period, beginning the first day of the calendar and ending the last day of the calendar year or when the transportation terminates whichever is earlier.
6. Line count; i.e., the number of leases being reported.
7. Enter the same Lease Number as used on Form MMS-2014.
8. Enter the same Agreement Number (if applicable) as reported on Form MMS-2014.
9. Enter the same product code as used on Form MMS-2014.
10. Enter an arm’s-length/non-arm’s-length indicator as follows:
  - “NARM” if 100% of the transportation costs were incurred under non-arm’s-length conditions;
  - “BOTH” if transportation costs were a combination of arm’s-length and non-arm’s-length conditions; or
  - “ARMS” if 100% of the transportation costs were incurred under arm’s-length conditions.
11. Column 11 is used to report actual transportation allowance for the reporting period. Enter in column:
  - 11a the actual royalty quantity transported during the reporting period.
  - 11b the lesser of the transportation allowance rate from Schedule 1, line 15, or 50 percent of the unit value of the oil unless ONRR has approved a rate in excess of 50 percent.
  - 11c the royalty allowance amount determined by multiplying column 11a by column 11b. (Royalty quantity is the total of the monthly royalty quantities actually transported during the reporting period.)

**Oil Transportation Allowance Report  
Form MMS-4110**

Line-by-Line Instructions

- 12.** Column 12 is used to report estimated transportation allowance for the current reporting period. Enter in column:
- 12a the estimated royalty quantity transported during the reporting period.
  - 12b the lesser of the transportation allowance rate from Schedule 1, line 15, or 50 percent of the unit value of the oil unless ONRR has approved a rate in excess of 50 percent.
  - 12c the royalty allowance amount determined by multiplying column 12a by column 12b. (Royalty quantity is the total of the monthly royalty quantities actually transported during the reporting period.)

The estimated transportation quantity or allowance rate may be the same as the actual quantity or rate reported in column 11. A separate Schedule 1 will need to be completed if they are different. If the lessee believes the quantity or the rate for the current reporting period will be higher or lower than the reporting period, the estimates should be adjusted upward or downward accordingly. Care should be taken to ensure that estimates are as accurate as possible and that the royalty allowance amount does not exceed 50 percent of the expected royalty value unless ONRR has approved a rate in excess of 50 percent. If a transportation allowance is not applicable for the current period, enter zeroes in column 12a, 12b, and 12c.

- 13.** Enter page totals on line 13.
- 14.** If more than one Form MMS-4110 is submitted, add the amount on line 13 for each page and enter the total only once on line 14 of the last page of the Oil Transportation Allowance Report.

Indicate by checking the appropriate box whether the information should be considered proprietary or nonproprietary.

# Oil Transportation Facility Summary Sheet

## Form MMS-4110, Schedule 1

**1** PAYOR NAME AND CODE \_\_\_\_\_ / \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

**2** LEASE NUMBER: \_\_\_\_\_  
AGREEMENT NUMBER: \_\_\_\_\_  
FACILITY NAME/ID NUMBER: \_\_\_\_\_  
Period: (mm/dd/ccyy) \_\_\_\_\_ to \_\_\_\_\_

| (a)<br>Segment Name or Number   | (b)<br>Mode of Transportation | (c)<br>Arm's Length/Non-Arm's-Length Indicator | (d)<br>Arm's-Length Contract/Non-Arm's-Length Operating Costs | (e)<br>Depreciation | (f)<br>Rate of Return | (g)<br>Undepreciated Capital Investment at Beginning of Year | (h)<br>Return on Investment (f) x (g) |                 |
|---|-------------------------------|--|---|---------------------|-----------------------|--|---------------------------------------|-----------------|
| From _____ To _____   |                               |  |   |                     |                       |  |                                       |                 |
| <b>A. TRANSPORTATION SEGMENT FROM LEASE</b>   |                               |  |   |                     |                       |  |                                       |                 |
| _____   | _____                         | _____  | \$ _____  | \$ _____            | _____                 | \$ _____   | \$ _____                              | <b>3</b>        |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>4</b>        |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>5</b>        |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>6</b>        |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>7</b>        |
| <b>Totals</b>   |                               |  | \$ _____  | \$ _____            |                       |  | \$ _____                              | <b>8</b>        |
| Allowance rate = (lines 8d + 8e + 8h)/Volume of Production transported from the lease.  |                               |  | \$ _____  |                     | ÷                     |  | = \$ _____                            | <b>9</b>        |
|   |                               |  | Part A Total Cost   |                     |                       | Part A Total Volume  |                                       | Cost per Barrel |
| <b>B. TRANSPORTATION SEGMENT AFTER LEASE</b>  |                               |  |   |                     |                       |  |                                       |                 |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>10</b>       |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>11</b>       |
| _____   | _____                         | _____  | _____   | _____               | _____                 | _____  | _____                                 | <b>12</b>       |
| <b>Totals</b>   |                               |  | \$ _____  | \$ _____            |                       |  | \$ _____                              | <b>13</b>       |
| Allowance rate = (lines 13d + 13e + 13h)/Volume of Production transported after the lease.  |                               |  | \$ _____  |                     | ÷                     |  | = \$ _____                            | <b>14</b>       |
|   |                               |  | Part B Total Cost   |                     |                       | Part A Total Volume  |                                       | Cost per Barrel |
| Total Unit Allowance Rate = the sum of line 9h and 14h. The allowance cannot exceed 50 percent of the value of the product without prior ONRR approval. |                               |  |   |                     |                       |  |                                       | <b>15</b>       |
|   |                               |  |   |                     |                       |  |                                       | Allowance Rate  |

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

PROPRIETARY

NONPROPRIETARY

**Oil Transportation Facility Summary Sheet  
Form MMS-4110, Schedule 1**

**Instructions**

Form MMS-4110, will be used to determine the transportation allowance amount for each Lease Number and Agreement Number (if applicable), combination. No allowance may be claimed if the facility is entirely on the lease.

Part A is used to accumulate segment costs and to compute an allowance for transporting oil from the lease to a separation facility remote from where the lease is situated. Part B is used to accumulate segment costs and compute an allowance for transporting oil from either a lease, or from a separation facility, to the nearest available market place or sales outlet remote from the lease. When oil is transported to a separation facility, treated, and clean oil is transported from the facility to a remote sales point, both Parts A and B must be used in computing the allowance.

The payor must submit a clear schematic diagram on no larger than 8-1/2 by 11-inch paper, illustrating the transportation facility from the lease to the point where the products are disposed of. Separation facilities, points of measurement, and points of sale or disposition for royalty purposes must be designated.

1. Enter the same payor name, payor code, and address as used on Page 1 of Form MMS-4110.
2. Enter the same Lease Number(s) and Agreement Number(s) (if applicable), combination as used on Form MMS-2014. Enter the transportation facility name or identification number (as designated by the payor) unique to the transportation facility. (Note: For a transportation facility consisting of only one segment, the segment name or number will be the same as the facility name or number.)

Enter the reporting period. The period must be the same period shown in item 5 on Form MMS-4110, Oil Transportation Allowance Report.

The following instructions are applicable to Part A (lines 3-7) and Part B (lines 10-12):

- a. Describe each segment of the transportation facility; e.g., from Lease No. XX-YYYYY-Z to St. John treatment facility.
- b. Identify the mode of transportation under which costs are incurred; e.g., pipeline, truck, rail, tanker, barge, etc.
- c. Indicate how facility/segment costs were incurred (“NARM” denotes non-arm’s-length costs which include non-arm’s-length and no contract situations; “ARMS” denotes arm’s-length contract costs).
- d. If transportation costs were incurred under arm’s-length condition, enter the total costs incurred for the period by multiplying the transportation rate by the volume transported at that rate. When lease production contains more than one product you cannot deduct the cost of transporting non-royalty bearing production without ONRR approval. If two or more rates are applicable during the reporting period, the cost incurred under each rate must be computed and summed. If, for example, the rates were \$1.00 per barrel for 150 barrels and \$1.50 per barrel for 100 barrels, the transportation costs would be

**Oil Transportation Facility Summary Sheet  
Form MMS-4110, Schedule 1**

Instructions

\$1.00 times 150 barrels plus \$1.50 times 100 barrels or \$300.00. Do not complete columns (e) through (h) for arm's-length costs.

If transportation costs were incurred under other than arm's-length conditions, complete columns (d) through (h). Using Schedule 1A determine the operations, maintenance, and overhead expenditures and enter in column (d). A separate Schedule 1A must be completed for each individual segment.

- e. Enter depreciation costs for the reporting period. Schedule 1B must be used to determine depreciation costs.
  - f. The rate of return shall be the industrial rate associated with Standard and Poor's BBB rating. Enter the monthly average rate as published in Standard and Poor's Bond Guide for the first month of the reporting period.
  - g. Enter the beginning-of-year undepreciated capital investment. Schedule 1B must be used to determine beginning-of-year undepreciated capital investment. A separate Schedule 1B must be completed for each individual segment.
  - h. Calculate the return on undepreciated capital investment by multiplying column (f) by column (g).
- 8.** Total columns (d), (e), and (h) and enter on lines 8d, 8e, and 8h.
- 9.** For Part A, sum lines 8d, 8e, and 8h and enter on line 9 – Total Costs. Enter total volume of production transported from the lease, as measured at the approved royalty measurement point, to the facility on line 9 – Total Volume. Compute the allowance cost per barrel, to six decimals, by dividing line 9 – Total cost, by line 9 – Total Volume, and enter on line 9h.
- 10.** 10-12, see (a)-(h) above.
- 13.** Total columns (d), (e), and (h) and enter on lines 13d, 13e, and 13h.
- 14.** For Part B, sum lines 13d, 13e, and 13h and enter on line 14 – Total Cost. Enter the total volume transported from the lease or treatment facility on line 14 – Total Volume (Note: Total volume is the volume transported through the transportation facility for the prior reporting period.) Compute the allowance costs per barrel, to six decimals, by dividing line 14 – Total Cost, by line 14 – Total Volume, and enter on line 14h.
- 15.** The total unit allowance rate is equal to the sum of line 9h plus line 14h. Enter this allowance rate on line 15. The allowance rate cannot exceed 50 percent of the value of the product without prior ONRR approval.

Indicate by checking the appropriate box whether the information should be considered proprietary or nonproprietary.

| Payor Identification Block |                |
|----------------------------|----------------|
| Payor Name and Code:       | _____          |
| Lease Number:              | _____          |
| Agreement Number:          | _____          |
| Facility ID Number:        | _____          |
| Segment ID No:             | _____          |
| Period:                    | _____ to _____ |
| (mm/dd/ccyy)               |                |

**Non-Arm's Length Transportation System/Segment  
Operations, Maintenance, and Overhead Expenditures Form  
MMS-4110, Schedule 1A**

Estimated Costs - Check when estimating costs for systems/segment start-up.

**A. Lessee's Operating Costs for System/Segment**

|  |          |    |
|--|----------|----|
| Operations Supervision and Engineering                           | \$ _____ | 1  |
| Operations Labor   | _____    | 2  |
| Utilities  | _____    | 3  |
| Materials  | _____    | 4  |
| Ad Valorem Property Taxes  | _____    | 5  |
| Rent   | _____    | 6  |
| Supplies   | _____    | 7  |
| Other (specify). Attach Supplemental Schedule 1A<br>as necessary | _____    | 8  |
|  | _____    | 9  |
| Total Operating Costs -- Subtotal                                | \$ _____ | 10 |

**B. Lessee's Maintenance Costs**

|  |          |    |
|--|----------|----|
| Maintenance Supervision  | \$ _____ | 11 |
| Maintenance Labor  | _____    | 12 |
| Materials  | _____    | 13 |
| Other (specify). Attach Supplemental Schedule 1A<br>as necessary | _____    | 14 |
|  | _____    | 15 |
| Total Maintenance Costs -- Subtotal                              | _____    | 16 |

**C. Lessee's Overhead Allocation (specify)**

|  |          |    |
|--|----------|----|
| _____  | \$ _____ | 17 |
| _____  | _____    | 18 |
| Other (specify) use Supplemental Schedule 1A | _____    | 19 |
| Total Overhead Allocation                    | \$ _____ | 20 |

**D. Total Operating and Maintenance Costs  
(Line 10 + line 16 + line 20)**

\$ \_\_\_\_\_ 21

**E. Allocated to Segment**

Lease Volume \_\_\_\_\_ ÷ Total throughput \_\_\_\_\_ % 22

**F. Segment Allocated Operating, Maintenance, and  
Overhead Costs  
(Line 21 x line 22) Enter in column d, Schedule 1**

\$ \_\_\_\_\_ 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one)

PROPRIETARY

NONPROPRIETARY

**Non-Arm's-Length Transportation System/Segment Operations,  
Maintenance, and Overhead Expenditures  
Form MMS-4110, Schedule 1A**

Instructions

Schedule 1A is used to record reasonable actual operating, maintenance, and overhead costs for a transportation segment for the prior reporting period. A separate Schedule 1A must be completed for each segment in the transportation facility. The costs for all transportation facility segments are accumulated on Schedule 1 to determine the total operating costs for the facility. A list of allowable and nonallowable costs is provided herein and should be used as a guide in determining operating, maintenance, and overhead costs.

Complete the payor information block as follows.

Enter the same payor name and code as used on Form MMS-4110, Oil Transportation Allowance Report.

Enter the same Lease Number(s) and Agreement Number(s) (if applicable), as used on Form MMS-2014.

Enter the transportation facility name or identification number (as designated by the payor) unique to the transportation facility.

Enter the transportation segment name or identification number (as designated by the payor) unique to the transportation segment. Note: For a transportation facility consisting of only one segment, the segment name or identification number will be the same as the facility name or identification number.

Enter the reporting period. The period must be the same period shown in item 5 on Form MMS-4110, Oil Transportation Allowance Report.

Instructions for Computing Operating, Maintenance, and Overhead Costs.

Note: If estimated costs are used for start-up, check the estimated cost block.

Identify and list on Part A and part B all operating and maintenance costs directly attributable to the transportation facility/segment during the reporting period. If additional space is needed to identify or explain other cost items, complete and attach a Supplemental Schedule 1A noting the nature and amount of the cost.

Line 10 – Enter total operating costs (the sum of lines 1-9).

Line 16 – Enter total maintenance costs (the sum of lines 11-15)

Part C – Identify and list all overhead costs directly allocable and attributable to the operations and maintenance of the transportation facility/segment. If additional space is needed, complete and attach a Supplemental Schedule 1A noting the nature and amount of the expenditure.

Line 20 – Sum lines 17 through 19 to obtain the total overhead expenditure directly allocable to the facility/segment.

Line 21 – Sum line 10, 16, and 20 to obtain the total operating costs.

**Non-Arm's-Length Transportation System/Segment Operations,  
Maintenance, and Overhead Expenditures  
Form MMS-4110, Schedule 1A**

Instructions

Part E - Enter the lease volume transported through this segment and the total throughput of this segment. Divide the lease volume by the total throughput and enter answer in 6 decimal places on line 22.

Part F - Determine the allocated operating, maintenance, and overhead costs for the segment by multiplying line 21 times line 22 and enter on line 23. Enter in column (d) of Part A or B, Schedule 1, as appropriate.

Indicated by checking the appropriate box whether the information should be considered proprietary or nonproprietary.

**ALLOWABLE AND NONALLOWABLE OPERATING, MAINTENANCE AND CAPITAL COSTS**

Allowable Capital Costs - Allowable capital costs are generally those costs for depreciable fixed assets (including costs of delivery and installation of capital equipment) which are an integral part of the transportation system. The following capital items are generally considered as allowable: garages and warehouses, rail haulage equipment including rail spurs, trucks, barges, pipeline compressors and pumps, and roads.

Nonallowable Capital Costs - Costs incidental to marketing (e.g., on-lease compression, gathering, separation, dehydration, storage, and treatment). Also, schools, hospitals, roads, sewer and other capital improvements or equipment not an integral part of the transportation facility are not allowable capital costs. The capital costs associated with the preparation of an environmental impact statement is not allowable. However, capital costs for environmental equipment that are an integral part of transportation facility are allowable.

Allowable Operating Costs - Allowable operating and maintenance costs are those nondepreciable costs that are directly attributable to the operation and maintenance of a transportation facility/segment. These expenditures include the following:

1. Salaries and wages paid to employees and supervisors while engaged in the operation and maintenance of equipment and facilities.
2. Fuel and utility costs directly related to transporting lease products.
3. Chemicals (including rust preventives and thinning agents) and lubricants used for the purpose of enhancing flow, protection, or cleaning.
4. Repairs, labor, materials, and supplies directly related to transportation equipment and facilities.
5. Port and toll fees, insurance, and ad valorem property taxes (Federal and State income taxes are not allowable deductions.)

**Non-Arm's-Length Transportation System/Segment Operations,  
Maintenance, and Overhead Expenditures  
Form MMS-4110, Schedule 1A**

Instructions

6. Arm's-length rental, leasing, or contract service costs for equipment, facilities, on-site location or maintenance of equipment and facilities.
  
7. Overhead costs (personnel, telephone service, payroll taxes, employee benefits, vehicle expenses, supplies, etc.). The total of these costs shall be limited to those reasonable expenditures directly attributable and allocable to the operating and maintenance of the transportation equipment and facilities.

Nonallowable Operating Costs –

1. Costs incidental to marketing; e.g., on-lease gathering and storage, compression, separation, and dehydration; also, heaters, treaters, meters, water knockouts, ACT meters, meter sleds, and pumps (surface, subsurface, and circulating), and operating costs associated with nonallowable capital expenditures.
  
2. Actual or theoretical losses (based on volume or value) are not allowable transportation costs. However, these costs are allowable if they are based on a FERC- or State-approved tariff.
  
3. Federal and State income taxes, production taxes, royalty payments, or fees such as State severance taxes.
  
4. The value of fuel taken from the gas stream and used to run compressors and pumps. Costs for services that the lessee is obligated to perform at no cost to the Federal Government or Indian owner.



**Non-Arm's-Length Transportation System/Segment Operations,  
Maintenance, and Overhead Expenditures  
Form MMS-4110, Supplemental Schedule 1A**

Instructions

Supplemental Schedule 1A is used to identify and document operating, maintenance, and overhead expenditures listed under the "Other" expenditure categories on Schedule 1A.

Complete the payor identification block (see Schedule 1A instructions).

A separate Supplemental Schedule 1A must be prepared for other operating costs, other maintenance costs, and other overhead costs associated with the transportation facility/segment.

Describe and specify each expenditure item and amount. Receipts and invoices should be retained in the office of the payor subject to audit.

Sum the amounts of each expenditure and list on the total line.

Enter the total amount of the operations, maintenance, or overhead expenditures on Schedule 1A, lines 9, 15, or 19 accordingly.

Indicate by checking the appropriate box whether the information should be considered proprietary or nonproprietary.



**Non-Arm's-Length Transportation System/Segment  
Depreciation and Capital Expenditures Summary  
Form MMS-4110, Schedule 1B**

Instructions

Schedule 1B is used to summarize actual or estimated facility/segment depreciation and undepreciated capital investment for computing return on investment. A separate Schedule 1B must be completed for each segment in the transportation facility. The costs of all transportation facility segments are accumulated on Schedule 1 to determine the total depreciation and undepreciated capital investment for the facility.

Complete the payor identification block (see Schedule 1A instructions).

For each facility/segment capital expenditure item complete one line as follows:

1. Identify the capital expenditure item.
2. Enter the initial capital expenditure amount and the date the expenditure was placed in service.
3. Enter a reasonable salvage value.
4. Enter the depreciable life of the expenditure and the number of years of depreciation taken to date.
5. Enter the undepreciated capital investment at beginning-of-year. In computing this value, salvage must be deducted from the initial capital investment.
6. Enter the amount of depreciation to be taken for the year. In computing depreciation, the payor may elect to use a straight-line depreciation method based on the life of the equipment or on the life of the reserves or a unit of production method. Once an election is made, the payor may not alternate methods without ONRR approval. Equipment shall not be depreciated below a reasonable salvage value.
7. Enter the undepreciated capital investment at end-of-year. This is computed by subtracting depreciation (column 6) from the beginning-of-year undepreciated capital investment (column 5). This amount will be used as the next year's beginning-of-year undepreciated capital investment.
8. Total columns 5 and 6.
9. Enter the "Allocated to Segment" amount from line 22, Schedule 1A, on line 9, columns 5 and 6.
10. Multiply line 8 by line 9 for columns 5 and 6 and enter on line 10 and on Schedule 1, columns g and e, Parts A and B as appropriate.

Indicate by checking the appropriate box whether the information should be considered proprietary or nonproprietary.