U.S. Department of the Interior
Minerals Management Service
Minerals Revenue Management

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Non-Arm's-Length Processing Facilities Operating Expenses, Depreciation, and Return on Undepreciated Capital Investment
Form MMS-4109, Schedule 2

PAYOR NAME AND CODE ______________________ / ______________

ADDRESS ____

CITY ________________ STATE ______________ ZIP __________

PLANT NAME & OPERATOR: ________________________
____
____
____

PRODUCT CODE: ________________________

PERIOD: (mm/dd/ccyy) ____________ to ____________

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreciated Capital Investment

	(a) Plant Depreciation	(b) Undepreciated Capital Investment at Beginning-of-Year	(c) Rate of Return	(d) Return on Undepreciated Capital Investment	(e) Depreciation Plus Return on Capital Investment	
Extraction Facility	$	$		$	$	1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 2A, Line 21)					$	2b
Total Lessee Operating and Maintenance Expenses (sum column e of line 1a, 1b, 2a, and 2b)					$	3
Total Product Quantity (including product quantities processed by lessee for third parties under arm's-length contracts)						4
Product Processing Cost per unit carried to six decimal places (Line 3 divided by line 4).					$	5

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☐ PROPRIETARY ☐ NONPROPRIETARY

Non-Arm's-Length Processing Facilities Operating Expenses, Depreciation, and Return on Undepreciated Capital Investment Form MMS-4109, Schedule 2

Instructions

Schedule 2 is used to determine a processing allowance rate for a plant product based upon the lessee's portion of the actual plant operating, maintenance, and overhead expenditures incurred during the reporting period.

Enter the same payor name, payor code, and address as used on Page 1 of Form MMS-4109.

Enter the plant name and operator. If extraction and fractionation takes place at separate facilities, enter the plant name and operator of each facility.

Enter the reporting period. The period must be the same period shown in item 5 on Page 1 of Form MMS-4109.

<u>Instructions for Computing the Processing Allowance Rate and Amount for a Plant Product Based upon the Lessee's Portion or Plant Operating Costs, Depreciation, and Return on Undepreciated Capital Investment</u>.

The processing allowance rate must be computed using the total lessee quantities and third-party quantities of the product processed by the lessee during the reporting period.

(Note: Lines 1a and 2a are used for identifying the lessee's portion of non-arm's-length or no contract costs for extraction facilities owned by the lessee. Lines 1b and 2b are used for identifying the lessee's portion of non-arm's-length or no contract costs for fractionation facilities owned by the lessee.)

1. Depreciation and return on undepreciated capital investment for the product are determined using Schedule 2B. Schedule 2B must be completed prior to completing the following steps on Schedule 2.

   a. Enter on line 1a, column a (or line 1b, column a), the total depreciation costs for the reporting period from Schedule 2B, line 8, column 6. A separate Schedule 2B must be completed when the lessee is an interest owner in both the extraction facility and the fractionation facility.

   b. Enter on line 1a, column b (or line 1b, column b), the total undepreciated plant capital investment at beginning-of-year from Schedule 2B, line 8, column 5.

   c. 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 <u>Standard and Poor's Bond Guide</u> for the first month of reporting period.

   d. Compute the return on undepreciated capital investment by multiplying undepreciated plant capital investment (column b, lines 1a and/or 1b) by the rate of return (column c, lines 1a and/or 1b). Enter under column d, lines 1a and/or 1b.

   e. Enter the sum of the plant depreciation (column a) and return on undepreciated capital investment (column d) under column e, lines 1a and 1b.

2. Determine plant operations, maintenance, and overhead costs for the facility using Schedule 2A. Enter the total plant operating, maintenance and overhead costs from Schedule 2A, line 21, on Schedule 2, line 2a or line 2b. A separate Schedule 2A must be completed when the lessee is an interest owner in both an extraction plant and a fractionation plant.

3. Enter the total plant expenses (the sum of column e for lines 1a, 1b, 2a, and 2b) on line 3.

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4. Enter the total product quantity produced by the lessee's portion of the plant (extraction plant in the case of sulfur, CO_2, or raw make, fractionation plant in the case of NGL products) during the reporting period, including the quantity of third-party products processed by the lessee, on line 4.

5. Enter the product processing cost per unit determined by dividing the total lessee expenses (line 3) by the total quantity of product produced (line 4) on line 5. The processing allowance rate should be carried to 6 decimal places; i.e., 0.546576.

Indicate 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 expenditures for fixed assets (including delivery and installation costs) that are an integral part of the facility used in the processinq/extraction of gas products. most capital items are generally located within the confines of the plant, beginning at the inlet of the plant and ending at the tailgate of the plant. Transportation-facilities owned by the lessee and used to move raw make from an extraction plant to a fractionation plant shall be considered as an allowable plant expenditure.

Capital costs will vary considerably between plants, since no two systems are exactly alike even though they possess superficial similarities. The items listed below are examples of investment items that will normally be found in different types of plants and should generally be considered as allowable capital costs:

> Plant and office buildings, warehouses, shops, laboratory, sidewalks, fences, plant roads and rights-of-way for plant roads, fresh water wells and supply systems, heat and steam, power, fuel sewage and general plant facilities, all related controls, meters P(including plant inlet and residue sales meters). Also, pipe valves and fittings, and equipment items whose primary function is the recovery of plant products including natural gas liquids such as absorbers, heat exchangers, coolers, chillers, fractionating columns, liquid sweetening facilities, and compression facilities for refrigeration or recompression of gas required during processing.

Nonallowable Capital Costs

Nondepreciable property, such as land and pipeline rights-of-way, or the facilities utilized in bringing the raw gas from the field to the plant, and facilities utilized for delivering, storing, or otherwise disposing of the residue gas and liquids after extraction, will generally not be considered plant investments. Capital costs associated with placing lease production in marketable condition (e.g. compression, dehydration, and on-lease gathering), schools, hospitals, roads, sewer plants and other capital improvements or equipment not an integral part of the processing facilities are not considered as allowable capital costs. The cost associated with the preparation of an environmental impact statement is not allowable. However, capital costs for environmental equipment that are an integral part of the gas processing facility are allowable.

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Allowable Operation and Maintenance Costs

Operation and maintenance costs are those nondepreciable expenditures which include the costs of operating and maintaining the facilities and shall be limited to costs directly related to processing gas products or extracting natural gas liquid hydrocarbons.

Operation and maintenance expenditures may include the following items:

1. Salaries and wages paid to employees and supervisors while engaged in operating and maintaining the plant. Such wages must be directly connected to the processing or extraction phase of the plant.

2. Electrical or other energy expenditures.

3. Chemicals and lubricants used for the purpose of extraction, protection, or cleaning of plant facilities.

4. Repairs, contract labor, materials, and supplies directly connected to the processing or extraction process of the plant.

5. Insurance, ad valorem property taxes, and payroll taxes (Federal and State income taxes are not allowable deductions).

6. Rental or leasing expenditures of the plant site.

7, General and administrative overhead costs (telephone service, office supplies, salary apportionment, etc.), Overhead costs shall be limited to those costs which are directly allocable or attributable to the operation and maintenance of the plant.

Operation and maintenance expenditures will be limited to those items that, in the judgment of MMS, are an integral part of the extraction or fractionation process.

Nonallowable Operating Costs

1. Federal and State income taxes, production taxes or fees such as State severance taxes, and royalty payments.

2. Any costs associated with nonallowable capital improvement or equipment.

3. Any costs associated with placing the gas in marketable condition which the lessee is obligated to perform at no cost to the lessor (e.g. gathering, dehydration, compression, or storage costs incurred on the lease or a unit).

Capital costs and operations and maintenance expenditures may be verified by requesting copies of invoices.