U.S. Department of the Interior

Office of Natural Resources Revenue

Gas Processing Allowance Report
Form ONRR-4109

OMB Control Number 1012-0002
OMB Approval Expires 12/31/2018

For ONRR Use Only:

4 FOR PAYOR USE ONLY

1 Payor Name ______________________________

Address ______________________________

City ______________ State ________ Zip ____

5 Plant Name ______________________________

2 Payor Code [ ]

3 Amended Report [ ]

6 Reporting Period (mm/dd/ccyy) ______________ to ______________

7	8 Lease Number	9 Agreement Number	10 Product Code	11 Non-Arm's-Length Indicator	12 Actual Data a Royalty Quantity	b Allowance Rate Per Unit	c Royalty Allowance Amount
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12	Page Total						
13	Report Total (Last Page Only)						

If more lines are needed, attach additional pages of form ONRR-4109

I have read and examined the statements 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

The Paperwork Reduction Act of 1995 (PRA) Statement: The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to corroborate oil and gas production and disposition data with sales and royalty data. Responses are required to obtain a benefit (43 U.S.C. 1334). Proprietary information is protected in accordance with the 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. Annual public reporting burden for this form is estimated at an average of 71 hours per report for electronic and manual reporting, including the time for reviewing instructions; gathering and maintaining data; and completing and reviewing the form. Direct your comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Office of Natural Resources Revenue, P.O. Box 25165, Denver Federal Center, Denver, CO 80225-0165.

Gas Processing Allowance Summary Report
Form ONRR-4109

General Instructions

In accordance with 30 CFR 1206.179, a payor may deduct from royalty payments the reasonable actual costs for processing gas plant products (e.g., natural gas liquids (NGLs), sulfur, etc.) from a gas stream. All natural gas liquids are considered as one product – NGLs, and the processing allowance rate for NGLs shall be based upon their aggregate processing cost. No allowance will be given for non-royalty bearing products unless the lessee has secured prior approval from ONRR.

Processing costs incurred under other than an arm's-length contract consist of the following: plant operating costs plus depreciation plus a return on undepreciated capital investment. A gas processing allowance rate is determined by dividing the total processing costs by the quality processed.

Requirements: For processing costs incurred under arm's-length conditions, payors are not required to submit form ONRR-4109. Instead, payors are required to submit a copy of their arm's-length processing contract to ONRR within 2 months of the date ONRR receives your first report that deducts the allowance on the form ONRR-2014. For processing costs incurred under non-arm's-length or no contract situations, Page 1 of form ONRR-4109 and Schedules 1, 1A and 1B must be submitted within 3 months after the end of the 12-month period to which the allowance applies.

Forms:

Form ONRR-4109, Page 1, is used to report the non-arm's-length processing allowance amount claimed for a plant product during the reporting period.

Form ONRR-4109, Schedule 1, is used to summarize plant product costs based upon the lessee's portion of actual plant operating, maintenance, and overhead costs for non-arm's-length or no contract situations. And to compute the non-arm's-length processing allowance rate for a plant product.

Form ONRR-4109, **Schedule 1A,** summarizes plant operating, maintenance, and overhead costs for plant product for non-arm's-length or no contract situations.

Form ONRR-4109, Supplemental Schedule 1A, is used to detail operating, maintenance, and overhead costs that could not be shown on Schedule 1A because of limited space.

Form ONRR-4109, Schedule 1B, summarizes plant depreciation and undepreciated capital investment for a plant product for non-arm's-length or no contract situations.

Gas Processing allowance Summary Report
Form ONRR-4109
Line-by-Line Instructions

Page 1 of form ONRR-4109 is used to report the royalty processing allowance amount claimed for plant products during the reporting period. In accordance with 30 CFR 1206.179, the gas processing allowance may not exceed 66-2/3 percent of the value of each gas plant product. Before you calculate the 66-2/3 percent limit, you must first reduce the value for any transportation allowances related to post-processing transportation authorized under 30 CFR 1206.177. The product processing allowance rate, determined using Schedule 1, must be computed prior to completing Page 1 of form ONRR-4109.

1. Enter the same payor name and address as used for reporting gas royalties and processing deductions on form ONRR-2014.

2. Enter the same payor code as reported on form ONRR-2014.

3. Check the Amended Report box if this report is amending previously submitted data. A corrected report requires a two-line entry. The first line reverses the original entry using a minus sign (-) in columns 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 processing allowance being reported in column 12. The reporting period will begin the first day of the calendar year or when the processing begins and will end the last day of the calendar year or when the processing terminates, whichever is earlier.

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

7. Line count; i.e., the number of allowance being reported.

8. Enter the same Lease Number as reported on form ONRR-2014.

9. Enter the same Agreement Number (if applicable), as reported on form ONRR-2014.

10. Enter the same product code as reported on form ONRR-2014.

11. Enter the non-arm's-length indicator as "NARM".

12. Column 12 is used for reporting the royalty allowance amount deducted for the reporting period, the allowance rate, and the royalty quantity processed during the reporting period.
    - 12a enter the total royalty quantity processed during the reporting period.
    - 12b enter the product processing allowance rate from Schedule 1.
    - 12c enter the royalty allowance amount determined by multiplying column 12a by column 12b.

13. Enter page totals on line 13.

14. If the number of allowances being reported exceeds the number of lines on the form ONRR-4109, use additional Page 1, form ONRR-4109s. If more than one Page 1, form ONRR-4109 is submitted, sum the amounts on line 13 for each page and enter the total, on line 14 of the last page of the form ONRR-4109.

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

U.S. Department of the Interior

Office of Natural Resources Revenue

Non-Arm's-Length Processing Facilities Operating Expenses, Depreciation, and Return on Undepreicated Capital Investment Form ONRR-4109, Schedule 1

OMB Control Number 1012-0002

OMB Approval Expires 12/31/2018

PLANT NAME & OPERATOR:______________________________

PAYOR NAME AND CODE ____________________/__________________

ADDRESS____

CITY______________________STATE__________ZIP__________________

PRODUCT CODE:______________________________

Period: (mm/dd/ccyy)__________________to____________________

Lessee's Portion of Plant Expenses, Depreciation, and Return on Undepreicated 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 Undepreciated Capital Investment	
Extraction Facility	$	$		$	$	1a
Fractionation Facility	$	$		$	$	1b
Extraction Facility Operating, Maintenance, and Overhead Expenses (from Schedule 1A, Line 21)					$	2a
Fractionation Facility Operating, Maintenance, and Overhead Expenses (from Schedule 1A, 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 ONRR-4109, Schedule 1

Instructions

Schedule 1 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 ONRR-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 ONRR-4109.

<u>Instructions for Computing the Processing Allowance Rate and Amount for a Plant Product Based upon the Lessee's Portion of 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 1B. Schedule 1B must be completed prior to completing the following steps on Schedule 1.

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

    b. Enter on line 1, column b (or line 1b, column b), the total undepreciated plant capital investment at beginning-of-year from Schedule 1B, 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 *Standard and Poor's Bond Guide* for the first month of the reporting period.

    d. Compute the return on undepreciated capital investment by multiplying undepreciated 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 the plant operations, maintenance, and overhead costs for the facility using Schedule 1A. Enter the total plant operating, maintenance and overhead costs from Schedule 1A, line 21, on Schedule 1, line 2a or line 2b. A separate Schedule 1A must be completed when the lessee is an interest owner in both an extraction plant and a fractionation plant.

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

Instructions

4. Enter the total product quantity produced by the lessee's portion of the plant 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; e.g., 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

<u>Allowable Capital Costs</u>

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 processing/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 thought they possess superficial similarities. The items listed below are examples of investments items that will be normally be found in different types of plants and should generally be considered as allowable capital costs:

> Plant and office buildings, warehouses, shops, laboratories, sidewalks, fences, plant roads and rights-of-way for plants roads, fresh water wells and supply systems, heat and steam, power, fuel, sewage and general plant facilities, all related controls, meters (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 unprocessed gas required during processing.

<u>Nonallowable Capital Costs</u>

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.

<u>Allowable Operation and Maintenance Costs</u>

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 allocable and attributable to processing gas products or extracting natural gas liquid hydrocarbons that the lessee can document.

Non-Arm's-Length Processing Facilities Operating Expenses, Depreciation, and Return on Undepreciated Capital Investment
Form ONRR-4109, Schedule 1

Instructions

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. Chemical 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. Overhead costs (telephones 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 ONRR, are an integral part of the extraction process.

<u>Nonallowable Operating Costs</u>

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 not cost to the lessor. These costs include among others dehydration, separation, compression, or storage, and are not allowed even if these costs are performed at a processing plant.

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

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Office of Natural Resources Revenue

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Payor Identification Block
Payor Name and Code:
Plant Name & Operator:
Product:
Period: (mm/dd/ccyy) to

Non-Arm's Length Processing Facilities Operations, Maintenance, and Overhead Expenditures Form ONRR-4109, Schedule 1A

A.	Lessee's Operating Costs		
	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		8
	as necessary		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		14
	as necessary		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

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

Non-Arm's-Length Processing
Facilities Operations, Maintenance, and Overhead Expenditures
Form ONRR-4109, Schedule 1A

Instructions

Schedule 1A is used to record the lessee's portion of the reasonable actual plant operating, maintenance, and overhead costs for processing the product during the reporting period. A list of allowable and nonallowable costs is provided herein and should be used as a guide.

<u>Complete the payor information block as follows.</u>

Enter the same payor name and code as reported on form ONRR-4109, Page 1.

Enter the same plant name and operator.

Enter the product; e.g., NGLs, sulfur, CO_2, etc.

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

<u>Instructions for Computing Operating, Maintenance, and Overhead Costs.</u>

Identify and list on Part A and Part B, the lessee's portion of all operating and maintenance costs directly attributable to the plant product during the reporting period. If additional space is needed to identify 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 the lessee's portion of all overhead costs directly allocable and attributable to the processing of the plant product. 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 expenditures directly allocable and attributable to the plant.

Line 21 – Sum lines 10, 16, and 20 to obtain total plant operating costs. Enter on Schedule 1A line 21. If the costs are associated with a fractionation facility owned by the lessee, enter the total operating costs on Schedule 1, line 2b.

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

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Payor Identification Block	
Payor Name and Code:	
Plant Name & Operator:	
Product:	
Period: (mm/dd/ccyy)	to

Non-Arm's-Length Processing Facilities Operations, Maintenance, and Overhead Expenditures Form ONRR-4109, Supplemental Schedule 1A

Type of Expenditure - Describe	
	$
Total	$

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Non-Arm's-Length Processing
Facilities Operations, Maintenance, and Overhead Expenditures
Form ONRR-4109, Supplemental Schedule 1A

Instructions

Supplemental Schedule 1A is used to identify and document the lessee's portion of all operating, maintenance, and overhead expenditures as listed under "Other" expenditure categories on Schedule 1A.

Complete the payor information block (see Schedule 1A instructions)

A separate Supplemental Schedule 1A must be prepared for other operations, costs, other maintenance costs, and other overhead costs associated with the plant but not listed on Schedule 1A.

Describe and specific 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 operation, 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.

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PAYOR IDENTIFICATION BLOCK
Payor Name and Code:
Plant Name:
Product Code:
Period: (mm/dd/ccyy) to

Non-Arm's-Length Processing Facilities Depreciation and Capital Expenditure Summary Form ONRR-4109, Schedule 1B

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service		3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date		5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End-of-Year
	$		$			$	$	$
Totals						$	$	8

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

Non-Arm's-Length Processing
Facilities Depreciation and Capital Expenditure Summary
Form ONRR-4109, Schedule 1B

Instructions

Schedule 1B is used to summarize the lessee's portion of the actual plant depreciation and undepreciated capital investment associated with the processing of the plant product for computing return on investment.

Complete the payor information block (see Schedule 1 instructions).

For each capital expenditure item complete one line as follows:

1. Identify the capital expenditure item.

2. Enter the lessee's portion of 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 item and the number of years of depreciation taken to date.

5. Enter the lessee's portion of the beginning-of-year undepreciated capital investment. In computing this amount, 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 which the plant services 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 end-of-year undepreciated capital investment. This is computed by subtracting depreciation from the beginning-of-year undepreciated capital investment. This amount will be used as the next year's beginning-of-year undepreciated capital investment.

8. Total columns 5 and 6 and enter on Schedule 1, columns a and b, line 1a. If the costs are associated with a fractionation facility owned by the lessee, enter the total costs on Schedule 1, columns a and b, line 1b.

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