



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
WASHINGTON, DC 20240

RFD/RB
Mail Stop 3132

JAN 30 1997

Dear Reporter:

By letter dated February 3, 1995, the Minerals Management Service (MMS) notified all offshore reporters to report drip condensate (that portion of a gas stream that becomes a liquid during the transmission of the gas from a lease to a processing plant or separation facility) volumes allocated from pipeline systems or separation facilities to our Production Accounting and Auditing System (PAAS) and Auditing and Financial System (AFS). This letter further clarifies the 1995 letter and addresses other questions regarding the reporting of drip condensate (drip).

• **How do I value drip when it is exchanged for an MMBtu equivalent?**

If you relinquish your rights to market the drip to the transporter and you receive payment based on an equivalent MMBtu of gas (not barrels of oil), we will accept the value of the drip condensate based on the gross proceeds you received under your arm's-length transportation contract (30 CFR 206.102 (b)(1)(i) (1996)).

Therefore, report the allocated volume of drip in the Sales Quantity field on your Report of Sales and Royalty Remittance (Form MMS-2014), using product code 05 (drip condensate). The drip value will be the MMBtu equivalent value of the gas based on the terms of the arm's-length transportation agreement. If your gas is processed and your drip is exchanged for an MMBtu equivalent of gas, then you must use the residue gas (product code 03) and gas plant product (product code 07) volumes, as well as their values and the processing costs associated with the gas plant products, in determining the value of drip

• **Should I include the allocated drip volume with oil royalty-in-kind (RIK) volumes?**

No. You must report royalty on any drip volumes as "in-value"—not "in-kind". Our RIK contracts are specifically for oil production and do not include drip condensate volumes. For reporting purposes, the drip, which is included in the gas, is accounted for when it is measured at the facility measurement point (FMP). You should be receiving individual volume allocations for your RIK oil and your drip.

Therefore, on your Oil and Gas Operations Report (OGOR) Part B, report the drip volume as royalty due (disposition code 16) and your RIK oil volumes as royalty due (disposition code 01). On your Form MMS-2014, report and pay on the drip volume using product code 05, transaction code 01 (royalty due). The RIK volumes must be reported on your Form MMS-2014 using product code 01, transaction code 06 (royalty-in-kind).

- **Should I include the free condensate (liquid hydrocarbons, normally exceeding 40 degrees of API gravity produced and measured prior to injecting into the pipeline) volumes with oil RIK volumes?**

Yes. If an oil RIK contract exists for the royalty stream, any free condensate volumes you receive must be reported as RIK using product code 02, transaction code 06 on your Form MMS-2014. The free condensate volumes must be reported as direct sales on your OGOR-B.

- **How do I report gas transported to a separation facility and sold AFTER removal of both free condensate and drip but before processing?** (This scenario was discovered after our February 3, 1995, letter.)

A. On the OGOR-B, use disposition code 01 and the actual gas volume that left the platform. However, any allocated drip volume is subject to royalty and reported on the OGOR-B as disposition code 16 and product code 05, transaction code 01 on the Form MMS-2014.

The two scenarios previously discussed in the 1995 letter where drip affected gas royalties are:

B. Gas is transferred to a gas plant before final royalty determination (disposition code 11 on the OGOR-B). Any allocated drip, whether measured at the separation facility (disposition code 16 on OGOR-B) or at the gas plant, is subject to royalty and reported as product code 05, transaction code 01 on the Form MMS-2014.

C. Gas is sold directly at the platform (disposition code 01 on the OGOR-B). Any allocated drip is NOT separately subject to royalty (disposition code 09 on the OGOR-B) because it is accounted for in the wet gas volume and value; therefore, not reflected on the Form MMS-2014.

To clarify reporting on Form MMS-2014, for scenario A or B, you must report the volume of unprocessed gas (product code 04) measured at the FMP less the equivalent MCF of converted MMBtu's or barrels you received for the drip as royalty due (transaction code 01). Whether you converted MMBtu or barrels, report the drip on your Form MMS-2014 as royalty due in barrels using product code 05.

We realize the volume of gas shown as a direct sale on your OGOR will not match your Form MMS-2014 gas sales volume for product code 04. However, our system will convert the product code 05 volume reported on your Form MMS-2014 to gas and add that volume to the product code 04 volumes before making the AFS/PAAS comparison between your OGOR and Form MMS-2014.

We will revise the *MMS PAAS Reporter Handbook—Lease, Facility Measurement Point, and Gas Plant Operators* (Handbook). In the interim we are enclosing a modified narrative and an additional OGOR-B sample for Example 4, Sales From a Separation Facility on an Oil/Gas Pipeline. This enclosure modifies Enclosure 2 of our February 3, 1995, letter, which should be used until the Handbook is revised.

If you have additional questions, please contact Ms. Beth Ann Danford or Ms. Mary Williams at 1-800-525-7922.

Sincerely,



Lucy R. Querques
Associate Director for
Royalty Management

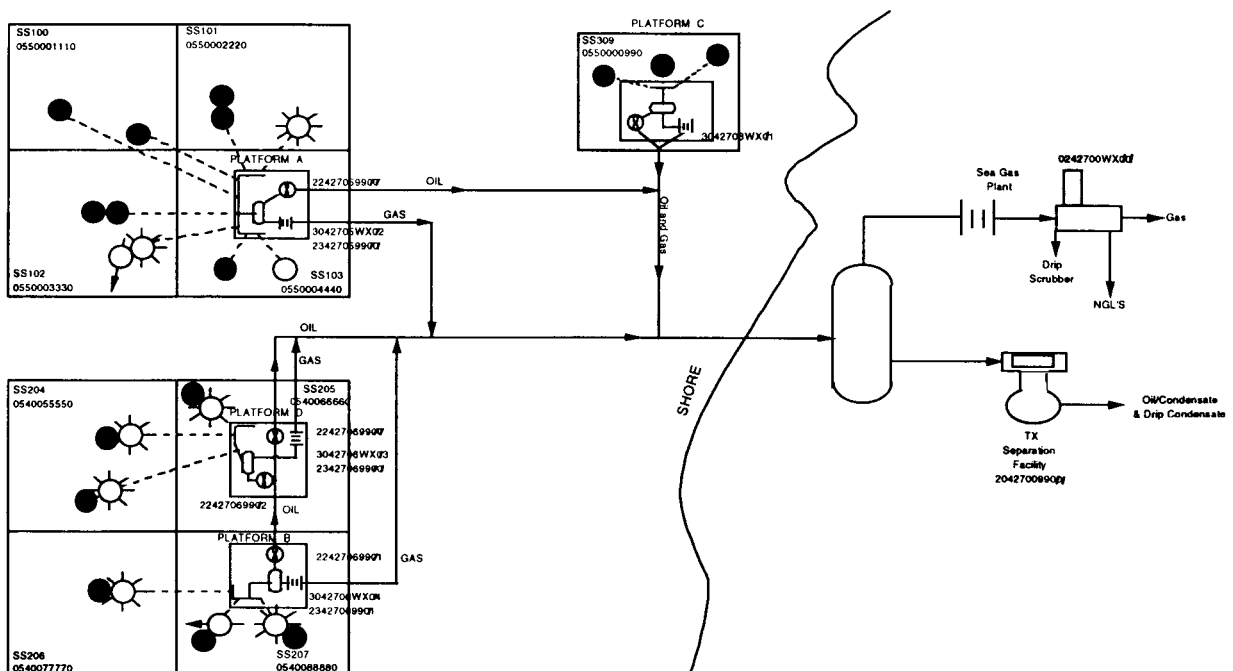
Enclosures

Example: Reporting Sales from a Separation Facility on an Oil/Gas Pipeline

This modifies Example 4 in Chapter 12, Special Reporting Situations, in the *PAAS Reporter Handbook—Lease, Facility Measurement Point, and Gas Plant Operators* until the Handbook is revised. In this example, sales occur from a separation facility on an oil/gas pipeline.

1. The separation facility is located downstream of all gas FMP's and prior to the inlet of the gas plant. Both free condensate and drip are recovered at the facility.
2. Several of the lessees (for example, those of lease 0540088880) retain all the rights to natural gas liquids (NGL's), etc. (that is, gas is transferred for processing prior to royalties being determined).
3. Several of the lessees (for example, those of lease 0550000990) relinquish all rights at the lease site (that is, gas is directly sold at the FMP).
4. Several of the lessees (for example, those of lease 0540022220) transport the gas to the separation facility where the gas is sold after removal of both free condensate and drip, to which the lessees retain rights.
5. A mixture of oil/condensate and drip condensate is sold directly from the separation facility.
6. The separation facility and downstream gas plant are not operated by the same operator. Therefore, the total drip condensate volumes will not be reported on the Gas Plant Operations Report (GPOR) and the drip volume from the separation facility must be accounted for and reported on the OGOR's.

Schematic—Same as page 12-11 in the Handbook



OGOR

The completed OGOR-B for lease 0540088880 shows the following information:

1. The disposition volume of the drip condensate attributable to the lease is reported by the lease operator as oil using disposition code 16 (Pipeline Drip/Scrubber Production) because that gas was transferred.
2. This oil volume is not allocated to well production on the OGOR-A.
3. The metering point is required for disposition code 16 (normally the same FMP number assigned to the oil sales FMP for the facility).
4. API gravity is required.
5. Disposition code 13 (Transferred from Facility) is used to account for the additional oil volumes and is equal to the volume reported as disposition code 16. No metering point or API gravity/Btu is allowed. The volume is shown as a bracketed < > negative number.

The completed OGOR-B for lease 0550000990 shows the following information:

1. The disposition volume of the drip condensate attributable to the lease is reported by the lease operator as oil using disposition code 09 (Sales - Not Subject to Royalty) because that gas was directly sold at the offshore sales/transfer meter.
2. This oil volume is not allocated to well production on the OGOR-A.
3. The metering point is required for disposition code 09 (normally the same FMP number assigned to the oil sales FMP for the facility).
4. API gravity is not allowed.
5. Disposition code 13 (Transferred from Facility) is used to account for the additional oil volumes and is equal to the volume reported as disposition code 09. No metering point or API gravity/Btu is allowed. The volume is shown as a bracketed < > negative number.

The completed OGOR-B for lease 0540022220 shows the following information:

1. The disposition volume of the drip condensate attributable to the lease is reported by the lease operator as oil using disposition code 16 because the gas was transported to the separation facility and gas sales occurred after the drip condensate was removed.
2. The “actual” gas volume measured by the approved offshore FMP is reported using disposition code 01 (Sales - Subject to Royalty).
3. The oil volume as disposition code 16 is not allocated to well production on the OGOR-A.

4. The metering point is required for disposition code 16 (normally the same FMP number assigned to the oil sales FMP for the facility).
5. API gravity is required.
6. Disposition code 13 (Transferred from Facility) is used to account for the additional oil volumes and is equal to the volume reported as disposition code 16. No metering point or API gravity/Btu is allowed. The volume is shown as a bracketed < > negative number.

PASR

The completed Production Allocation Schedule Reports (PASR's) for the separation facility and all upstream commingling meters have been provided.

1. The volume originally reported under "Other Sources" was drip condensate. The drip condensate is now allocated to the appropriate upstream commingling point or MMS Lease/Agreement Number.
2. The total volume reported for lease 0550000990 represents a combined total for both the oil/condensate and drip condensate allocated to this lease from the facility.
3. The PASR's for the upstream commingling points reflect the appropriate FMP number assigned to the separation facility.
4. For all the upstream commingling points, the total reflects the volume allocated by the separation facility, and further allocates this volume back to the appropriate leases measured at this point.

12.6 Example 4 (cont.)—Completed OGOR-B

(OMB 1010-0040)
 (Expires May 31, 1995)
 The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires us to inform you that this information is being collected to determine where production is measured and/or transferred for royalty determination purposes. MMS will use this information to assure that all production is accounted for properly.

U.S. DEPARTMENT OF THE INTERIOR
 Minerals Management Service
 Royalty Management Program

OIL AND GAS OPERATIONS REPORT
 PART B - PRODUCT DISPOSITION
 (OGOR-B)

FEDERAL
 or INDIAN

MMS USE

REPORTER USE

REPORT TYPE: <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> MODIFIED	REPORT PERIOD: (4) MMY 1 1 2 1 9 1 4	MMS OPERATOR NUMBER: (5) 1 F 0 1 7 1 0 1 5
OPERATOR NAME: (30) O & G / P & C	OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: (20) OCS-G-2222	
OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME: (30)	MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: (11) 1 0 1 5 1 4 1 0 1 0 2 1 2 2 2 0	AGENCY LEASE/AGREEMENT NUMBER: (25)

LINE NUMBER (1)	ACTION CODE (3)	DISPOSITION CODE (2)	METERING POINT (11)	GAS PLANT (11)	API GRAVITY/STU (5)	DISPOSITION VOLUMES		
						OIL/CONDENSATE (BBL) (9)	GAS (MCF) (9)	WATER (BBL) (9)
1	A	01	20 4 27 00 99 00		3 9 0	2 0 9 9		
2	A	16	20 4 27 00 99 00		3 9 0	2 4 2		
3	A	13			.	< 2 4 2 >		
4	A	01	30 4 27 03 WX 02		1 3 0 0 .		1 0 2 5 7 2 5	
5	A	20			.		6 8 0 2	
6	A	27			.			8 2 4 2
7					.			
8					.			
9					.			
10					.			
TOTAL DISPOSITIONS (10)						2 0 9 9	1 0 3 2 5 2 7	8 2 4 2

CHECK IF PART B IS CONTINUED

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

CONTACT NAME: (First, M.I., Last) (30) Kim Dillenger	TELEPHONE NUMBER: (10) (7 1 3) (2 9 6) - 4 2 7 2	EXTENSION NUMBER: (4) (1 4 0 0)
AUTHORIZING NAME: (First, M.I., Last) (30) Norman Turtle	TITLE: (30) Supervisory Accountant	
AUTHORIZING SIGNATURE: <i>Norman Turtle</i>	DATE: (8) MMYYY 1 0 1 1 2 1 9 9 5 1	COMMENTS: (60)

FORM MMS-4054-B (REV. 1/92)

PAGE 2 OF 2

FOR ILLUSTRATIVE PURPOSES ONLY