

**LYBROOK AND OTERO TRANSPORTATION SYSTEMS - HUERFANO MOUNTAIN GAS PLANT  
COST ALLOCATION**

SYSTEM-TO-PLANT ALLOCATION				
YEAR	2007	2008	2009	2010
System	50.58%	55.80%	52.92%	54.01%
Plant	49.42%	44.20%	47.08%	45.99%
	100.00%	100.00%	100.00%	100.00%

The following percentages apply after allocating the fee between system and plant.

LYBROOK AND OTERO TRANSPORTATION SYSTEM COST ALLOCATION				
YEAR	2007	2008	2009	2010
Allowed Costs	77.80%	77.00%	77.39%	73.92%
Disallowed Costs	22.20%	23.00%	22.61%	26.08%
	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	0.00%	0.00%	0.00%	0.00%
Fuel Disallowed	100.00%	100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	100.00%

NOTE: Huerfano plant ceased processing February 2011 and became part of Transportation

LYBROOK, OTERO AND HUERFANO TRANSPORTATION SYSTEM COST ALLOCATION			
YEAR	2011	2012	2013*
Allowed Costs	54.86%	61.69%	59.40%
Disallowed Costs	45.14%	38.31%	40.60%
	100.00%	100.00%	100.00%
Fuel Allowed	0.00%	0.00%	0.00%
Fuel Disallowed	100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%

\*2013 values are for January through July 2013

HUERFANO PLANT COST ALLOCATION - GAS DELIVERED TO TRANSWESTERN				
YEAR	2007	2008	2009	2010*
Allowed Costs	89.22%	90.00%	86.32%	86.44%
Disallowed Costs	10.78%	10.00%	13.68%	13.56%
	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	52.49%	52.49%	52.49%	52.49%
Fuel Disallowed	47.51%	47.51%	47.51%	47.51%
	100.00%	100.00%	100.00%	100.00%

\*Use 2010 values for any processing in January and February 2011

**HUERFANO MOUNTAIN GAS PLANT-- LYBROOK AND OTERO TRANSPORTATION SYSTEMS  
SIMPLIFIED EXAMPLE FOR 2010 UCA**

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

Royalty Rate:	12.50%	Wellhead Volume:	1,000 MMBtu
Bundled Rate:	\$0.50 Per MMBtu	Residue Volume:	700 MMBtu
Residue Gas Price:	\$4.00 Per MMBtu	Plant Shrink Volume:	200 MMBtu
NGL Price:	\$1.00 Per Gallon	Field Fuel:	75 MMBtu
NGL Volume:	2,000 Gross Gallons	Plant Fuel:	25 MMBtu
			1,000 Ties to Wellhead MMBtu
			925 Calculated Inlet MMBtu

Example is for gas delivered to Transwestern

**VOLUME AND VALUE REPORTING**

**Residue Volume (PC 03)**

Residue MMBtu	Total Plant Fuel MMBtu	Unbundling Plant Fuel Allocation		Disallowed/ Allowed Fuel MMBtu (B * C)	Total Residue MMBtu (A + E)
A	B	C	D	E	F
700	25	47.51%	Non-Allowed	12	712
	25	52.49%	Allowed	13	
		100.00%		25	

**Residue Value (PC 03)**

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
712	\$4.00	\$2,848.00

The calculation accounts for plant fuel allowed royalty free per 30 CFR 1202.151(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	\$1.00	\$2,000.00

**Field Fuel Value (PC 15)**

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
75	\$4.00	\$300.00

**ALLOWANCE REPORTING**

**Transportation Allowance**

MMBtu	Rate/Price	Plant to System Allocation	System Allowance Rate (B * C)	Total Transportation Cost (A * D)	Allowed Unbundling Cost Allocation	Allowed Transportation Cost (E * F)	Royalty Rate	Total Transportation Allowance (G * H)
A	B	C	D	E	F	G	H	I
*Transportation Rate Cost	925	\$0.50	54.01%	\$0.2701	(\$249.84)	73.92%		(\$184.68)
**Field Fuel Value	75	\$4.00			(\$300.00)	0.00%		\$0.00
					(\$549.84)			(\$184.68)
							12.50%	(\$23.09)
								(\$23.09)

\* Review your contract to determine if transportation cost is based on inlet or wellhead volume and revise calculation accordingly. For this example, the transportation cost is based on inlet volume.

\*\* Fuel is not allowed on the Lybrook, Otero and Huefano Transportation System as it is used by equipment to place the gas into marketable condition. Huefano gas plant ceased processing February 2011 and became part of Transportation.

**ALLOWANCE REPORTING**

Transportation Allocated 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	712	72.14%				(\$16.66)
07	200	20.26%				(\$4.68)
15	75	7.60%				(\$1.76)
	<u>987</u>	<u>100.00%</u>	(\$184.68)	12.50%	(\$23.09)	(\$23.09)

**Processing Allowance PC 07**

MMBtu	Rate	Plant to System Allocation	Plant Allowance Rate (B * C)	Total Processing Cost (A * D)	Allowed Unbundling Cost Allocation	Allowed Processing Cost (E * F)	Royalty Rate	Total Processing Allowance (G * H)	
A	B	C	D	E	F	G	H	I	
*Processing Rate Cost	925	\$0.50	45.99%	(\$0.2300)	(\$212.75)	86.44%	(\$183.90)	12.50%	(\$22.99)

\* 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		712	\$2,848.00	\$356.00	(\$16.66)		\$339.34
07 Natural Gas Liquids	2,000		\$2,000.00	\$250.00	(\$4.68)	(\$22.99)	\$222.33
15 Field Fuel		75	\$300.00	\$37.50	(\$1.76)		\$35.75
						Royalty Due ONRR	<u>\$597.42</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>