

**SAN JUAN TRANSPORTATION SYSTEM AND CHACO PLANT
UNBUNDLING COST ALLOCATION**

Use the Transportation System-to-Plant Allocation below if you are charged a combined fee for gathering and processing.

| TRANSPORTATION SYSTEM-TO-PLANT ALLOCATION | | | | | | | |
|---|------|------|------|------|------|------|-------|
| YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014* |
| Transportation System | 65% | 65% | 65% | 65% | 65% | 65% | 65% |
| Plant | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Enterprise bills separately for some field services such as electrical compression, global compression, lateral compression, water removal & handling, dehydration, and fuel. These charges are 100% disallowed. Use the UCAs below for all gas transported through the San Juan Transportation System that is shipped to the Chaco Gas Processing Plant.

| SAN JUAN TRANSPORTATION SYSTEM UNBUNDLING COST ALLOCATION | | | | | | | |
|--|------|------|------|------|------|------|-------|
| YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014* |
| Allowed Costs | 60% | 60% | 60% | 60% | 60% | 60% | 60% |
| Disallowed Costs | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Fuel Allowed | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Fuel Disallowed | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Use the appropriate UCA below based on which residue gas pipeline you elect for your production (El Paso Natural Gas Pipeline or Transwestern Pipeline).

| CHACO PLANT - GAS DELIVERED TO EL PASO NATURAL GAS (EPNG) UNBUNDLING COST ALLOCATION | | | | | | | |
|---|------|------|------|------|------|-------|-------|
| YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* | 2014* |
| Allowed Costs | 29% | 29% | 29% | 28% | 28% | 28% | 28% |
| Disallowed Costs | 71% | 71% | 71% | 72% | 72% | 72% | 72% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Fuel Allowed | 18% | 18% | 18% | 17% | 18% | 18% | 18% |
| Fuel Disallowed | 82% | 82% | 82% | 83% | 82% | 82% | 82% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

| CHACO PLANT - GAS DELIVERED TO TRANSWESTERN (TW) UNBUNDLING COST ALLOCATION | | | | | | | |
|--|------|------|------|------|------|-------|-------|
| YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* | 2014* |
| Allowed Costs | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Disallowed Costs | 75% | 75% | 75% | 75% | 75% | 75% | 75% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Fuel Allowed | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| Fuel Disallowed | 85% | 85% | 85% | 85% | 85% | 85% | 85% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

* ONRR calculated these UCAs using the most current information available (see "Disclaimer for ONRR Unbundling Website")

**CHACO PLANT AND SAN JUAN TRANSPORTATION SYSTEM
SIMPLIFIED EXAMPLE FOR 2012 UCA**

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

| | | | | |
|--------------------|------------------|----------------------|-------|------------------------|
| Royalty Rate: | 12.5% | Wellhead Volume: | 1,050 | MMBtu |
| Bundled Rate: | \$0.50 Per MMBtu | Residue Volume: | 1,000 | MMBtu |
| Residue Gas Price: | \$4.00 Per MMBtu | Plant Shrink Volume: | 10 | MMBtu |
| NGL Price: | \$1.60 Per MMBtu | Field Fuel: | 25 | MMBtu |
| NGL Volume: | 2,000 Per Gallon | Plant Fuel: | 15 | MMBtu |
| | Gross Gallons | | 1,050 | Ties to Wellhead MMBtu |
| | | | 1,025 | Calculated Inlet MMBtu |

Example is for gas delivered to Transwestern Pipeline.

VOLUME AND VALUE REPORTING

| <u>Residue Volume (PC 03)</u> | Residue MMBtu | Total Plant Fuel MMBtu | Unbundling Plant Fuel Allocation | | Disallowed/ Allowed Plant Fuel MMBtu (B * C) | Total Residue MMBtu (A + E) |
|-------------------------------|---------------|------------------------|----------------------------------|---|--|-----------------------------|
| | A | B | C | D | E | F |
| | 1,000 | 15 | 85% Non-Allowed | | 13 | 1,013 |
| | | 15 | 15% Allowed | | 2 | |
| | | | 100.00% | | 15 | |

Residue Value (PC 03)

| MMBtu | Residue Gas Price | Sales Value (A * B) |
|-------|-------------------|---------------------|
| A | B | C |
| 1,013 | \$4.00 | \$4,052.00 |

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 | \$1.60 | \$3,200.00 |

Field Fuel Value (PC 15)

| MMBtu | Residue Gas Price | Sales Value (A * B) |
|-------|-------------------|---------------------|
| A | B | C |
| 25 | \$4.00 | \$100.00 |

ALLOWANCE REPORTING

| <u>Transportation Allowance</u> | 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 | 1,025 | \$0.50 | 65% | (\$0.3255) | (\$333.64) | 60% | (\$199.22) | | |
| **Field Fuel Value | 25 | \$4.00 | | | (\$100.00) | 0.00% | \$0.00 | | |
| | | | | | (\$433.64) | | (\$199.22) | 12.5% | (\$24.90) |
| | | | | | | | | | (\$24.90) |

*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 San Juan Transportation System as it is used by equipment to place the gas into marketable condition. Additionally, Enterprise invoices separately for certain costs that are related to field dehydration, global, lateral, and electrical compression. These costs are disallowed because they are necessary to place the gas into marketable condition.

* Transportation cost may include: Gathering, Quality Spec Handling, Manual, and other fees.

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) | Allowance Allocated Among Products (C * F) |
|--------------|-------|---------------------------------------|-----------------------------|--------------|--|--|
| A | B | C | D | E | F | G |
| 03 | 1,013 | 96.66% | | | | (\$24.07) |
| 07 | 10 | 0.95% | | | | (\$0.24) |
| 15 | 25 | 2.39% | | | | (\$0.60) |
| | 1,048 | 100.00% | (\$199.22) | 12.5% | (\$24.90) | (\$24.90) |

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 | 1,025 | \$0.50 | 35% | (\$0.1745) | (\$178.91) | 25% | (\$45.31) | 12.5% | (\$5.66) |

* 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.

* Processing cost may include: Plant Product Extraction, Liquid Extraction, Retention Fees, and other fees.

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 | | 1,013 | \$4,052.00 | \$506.50 | (\$24.07) | | \$482.43 |
| 07 Natural Gas Liquids | 2,000 | | \$3,200.00 | \$400.00 | (\$0.24) | (\$5.66) | \$394.10 |
| 15 Field Fuel | | 25 | \$100.00 | \$12.50 | (\$0.60) | | \$11.91 |
| | | | | | | Royalty Due ONRR | \$888.44 |

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>