

**LYBROOK PLANT AND TORRE ALTA TRANSPORTATION SYSTEM
COST ALLOCATION**

Enterprise bills separately for some compressor stations, such as the Lowry compressor station. The costs associated with the separately billed compressor stations, plus any associated fuel, are not allowed.

SYSTEM-TO-PLANT ALLOCATION					
YEAR	2007	2008	2009	2010	2011
System	56.88%	52.65%	55.45%	63.97%	62.99%
Plant	43.12%	47.35%	44.55%	36.03%	37.01%
	100.00%	100.00%	100.00%	100.00%	100.00%

TORRE ALTA TRANSPORTATION SYSTEM COST ALLOCATION - GAS DELIVERED TO NEW MEXICO GAS COMPANY					
YEAR	2007	2008	2009	2010	2011
Allowed Costs	77.23%	78.58%	74.12%	75.46%	74.44%
Disallowed Costs	22.77%	21.42%	25.88%	24.54%	25.56%
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	14.92%	19.83%	15.40%	20.52%	17.96%
Fuel Disallowed	85.08%	80.17%	84.60%	79.48%	82.04%
	100.00%	100.00%	100.00%	100.00%	100.00%

LYBROOK PLANT COST ALLOCATION - GAS DELIVERED TO NEW MEXICO GAS COMPANY					
YEAR	2007	2008	2009	2010	2011
Allowed Costs	62.65%	62.50%	62.14%	62.27%	58.69%
Disallowed Costs	37.35%	37.50%	37.86%	37.73%	41.31%
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	37.61%	37.61%	37.61%	37.61%	37.61%
Fuel Disallowed	62.39%	62.39%	62.39%	62.39%	62.39%
	100.00%	100.00%	100.00%	100.00%	100.00%

**LYBROOK PLANT AND TORRE ALTA TRANSPORTATION SYSTEM
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:	\$0.40 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

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
	700	25	62.39% Non-Allowed		16	716
		25	37.61% Allowed		9	
			100.00%		25	

<u>Residue Value (PC 03)</u>	MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C	
	716	\$4.00	\$2,864.00

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.

<u>NGL Value (PC 07)</u>	Gallons	NGL Price	Sales Value (A * B)
A	B	C	
	2,000	\$1.00	\$2,000.00

<u>Field Fuel Value (PC 15)</u>	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	\$0.40	63.97%	\$0.2600	(\$240.50)	75.46%	(\$181.48)		
Field Fuel Value	75	\$4.00			(\$300.00)	20.52%	(\$61.56)		
**Lowry Compression					(\$100.00)	0.00%	\$0.00		
					<u>(\$640.50)</u>		<u>(\$243.04)</u>	12.50%	<u>(\$30.38)</u>
									<u>(\$30.38)</u>

* 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.

** Enterprise bills separately for the Lowry compressor; the cost together with any associated fuel is not allowed.

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	716	72.25%				(\$21.95)
07	200	20.18%				(\$6.13)
15	75	7.57%				(\$2.30)
	<u>991</u>	<u>100.00%</u>	<u>(\$243.04)</u>	12.50%	<u>(\$30.38)</u>	<u>(\$30.38)</u>

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
925	\$0.40	36.03%	(\$0.1441)	(\$133.29)	62.27%	(\$83.00)	12.50%	(\$10.38)

* 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		716	\$2,864.00	\$358.00	(\$21.95)		\$336.05
07 Natural Gas Liquids	2,000		\$2,000.00	\$250.00	(\$6.13)	(\$10.38)	\$233.49
15 Field Fuel		75	\$300.00	\$37.50	(\$2.30)		\$35.20
						Royalty Due ONRR	<u>\$604.74</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>