

# Gas Processing Allowance Report

## Form ONRR-4109

<b>1</b> Payor Name: _____ Address: _____ City: _____ State: _____ Zip: _____	For ONRR Use Only   <b>4</b> For Payor Use Only
<b>2</b> Payor Code: _____	
<b>3</b> Amended Report? <input type="checkbox"/> Yes <input type="checkbox"/> No	

5	Plant Name:			6	Reporting Period (mm/dd/ccyy):		to
7	8	9	10	11	12	13	
	Lease Number	Agreement Number	Product Code	Royalty Quantity	Allowance Rate Per Unit	Royalty Allowance Amount	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

<b>14</b> Page Total		
<b>15</b> Report Total (From Last Page)		

If more lines are needed, attach additional pages to Form ONRR-4110		
I have read and examined 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):	<input type="checkbox"/> Proprietary	<input type="checkbox"/> Nonproprietary

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# Gas Processing Allowance Report

## Form ONRR-4109

### General Instructions

You will find an electronic copy of form ONRR-4109 on the Office of Natural Resources Revenue (ONRR) website at <https://www.onrr.gov/ReportPay/royalty-reporting.htm#forms>, to print, complete, and submit to ONRR, as follows:

Office of Natural Resources Revenue  
Document Processing  
Denver Federal Center, Building 85  
6<sup>th</sup> Ave. and Kipling St.  
P.O. Box 25165  
Denver, Colorado 80225-0165

In accordance with 30 CFR 1206.179, a payor may deduct from royalty payments the reasonable actual costs for processing gas plant products (for example, 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.

In accordance with 30 CFR 1206.180, 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 or a cost equal to the initial depreciable investment in the processing plant multiplied by the monthly average rate as published in Standard and Poor's Guide for BBB rated bonds. The rate must be redetermined at the beginning of each subsequent calendar year. 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 allowance contract to ONRR within 2 months of the date that ONRR receives your first report showing the allowance deduction on form ONRR-2014. For processing allowance costs incurred under non-arm's-length or no contract situations, payors must submit Page 1 of form ONRR-4109 and Schedules 1, 1A and 1B within 3 months after the end of the 12-month period to which the allowance applies.

#### **Forms:**

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

**Form ONRR-4109, Schedule 1**, summarizes 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**, lists, in 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(c), 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 amends 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 the plant name. If extraction and fractionation takes place at separate facilities, then enter the plant name of each facility.
6. 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.
7. Line count: that is 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 of form ONRR-4109s. If more than one Page 1 of form ONRR-4109 are submitted, sum the amounts on line 13 for each page and enter the total on line 14 of the last Page 1 of form ONRR-4109.

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

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

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 Undepreciated 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 6 on Page 1 of form ONRR-4109.

### 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.

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.

# Non-Arm's-Length Processing Facilities Operating Expenses, Depreciation, and Return on Undepreciated Capital Investment

## Form ONRR-4109, Schedule 1

### Instructions (cont'd)

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; for example, 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

#### Allowable Capital Costs

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 made 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 though they possess superficial similarities. The items listed below are examples of investment items that will be normally 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.

#### Nonallowable Capital Costs

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 (for example, 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.

#### Allowable Operation and Maintenance Costs

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 (cont'd)**

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.

**Nonallowable Operating Costs**

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 no 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.

<b>Payor Identification Block</b>	
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
- Operations Labor
- Utilities
- Materials
- Ad Valorem Property Taxes
- Rent
- Supplies
- Other (specify). Attach Supplemental Schedule 1A  
as necessary
- Total Operating Costs -- Subtotal

\$ _____	1
_____	2
_____	3
_____	4
_____	5
_____	6
_____	7
_____	8
_____	9
\$ _____	10

**B. Lessee's Maintenance Costs**

- Maintenance Supervision
- Maintenance Labor
- Materials
- Other (specify). Attach Supplemental Schedule 1A  
as necessary
- Total Maintenance Costs -- Subtotal

\$ _____	11
_____	12
_____	13
_____	14
_____	15
\$ _____	16

**C. Lessee's Overhead Allocation (specify)**

- \_\_\_\_\_
- \_\_\_\_\_
- Other (specify) use Supplemental Schedule 1A
- Total Overhead Allocation

\$ _____	17
_____	18
_____	19
\$ _____	20

**D. Total Operating and Maintenance Costs  
(Line 10 + line 16 + line 20)**

\$ _____	21
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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.

Complete the payor information block as follows:

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; for example, NGLs, sulfur, CO<sub>2</sub>, etc.

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

**Instructions for Computing Operating, Maintenance, and Overhead Costs**

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 the total 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.



**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 specify 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.

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	2	3	4	5	6	7	8
Expenditure Item	Initial Capital Investment and Date Placed in Service	Salvage Value	Depreciable Life / Expected Units of Life	Years of Depreciation / Units Taken to Date	Undepreciated Capital Investment at Beginning of Year	Depreciation	Undepreciated Capital Investment at End-of-Year
	\$	\$			\$	\$	\$
<b>Totals</b>					\$	\$	9

THIS INFORMATION SHOULD BE CONSIDERED (Please Check One):  PROPRIETY  NONPROPRIETY

**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 or expected units of life.
5. Enter the number of years of depreciation, or the number of units taken to date.
6. 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.
7. 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.
8. 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.
9. Total columns 5 and 6 and enter the result 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.