Natural Resources Revenue Off., DOI § 1206.179

arm’s-length transportation arrangements.

(8) Temporary storage services. This includes short duration storage services offered by market centers or hubs (commonly referred to as “parking” or “banking”), or other temporary storage services provided by pipeline transporters, whether actual or provided as a matter of accounting. Temporary storage is limited to 30 days or less.

(9) Supplemental costs for compression, dehydration, and treatment of gas. ONRR allows these costs only if such services are required for transportation and exceed the services necessary to place production into marketable condition required under § 1206.174(h).

(g) Determining nonallowable costs for transportation allowances. Lessees may not include the following costs in determining the arm’s-length transportation allowance under paragraph (a) of this section or the non-arm’s-length transportation allowance under paragraph (b) of this section:

(1) Fees or costs incurred for storage. This includes storing production in a storage facility, whether on or off the lease, for more than 30 days.

(2) Aggregator/marketer fees. This includes fees you pay to another person (including your affiliates) to market your gas, including purchasing and reselling the gas, or finding or maintaining a market for the gas production.

(3) Penalties you incur as shipper. These penalties include, but are not limited to the following:

(i) Over-delivery cash-out penalties. This includes the difference between the price the pipeline pays you for over-delivered volumes outside the tolerances and the price you receive for over-delivered volumes within tolerances.

(ii) Scheduling penalties. This includes penalties you incur for differences between daily volumes delivered into the pipeline and volumes scheduled or nominated at a receipt or delivery point.

(iii) Imbalance penalties. This includes penalties you incur (generally on a monthly basis) for differences between volumes delivered into the pipeline and volumes scheduled or nominated at a receipt or delivery point.

(iv) Operational penalties. This includes fees you incur for violation of the pipeline’s curtailment or operational orders issued to protect the operational integrity of the pipeline.

(4) Intra-hub transfer fees. These are fees you pay to hub operators for administrative services (e.g., title transfer tracking) necessary to account for the sale of gas within a hub.

(5) Other nonallowable costs. Any cost you incur for services you are required to provide at no cost to the lessor.

(h) Other transportation cost determinations. You must follow the provisions of this section to determine transportation costs when establishing value using either a net-back valuation procedure or any other procedure that allows deduction of actual transportation costs.


PROCESSING ALLOWANCES

§ 1206.179 What general requirements regarding processing allowances apply to me?

(a) When you value any gas plant product under §1206.174, you may deduct from value the reasonable actual costs of processing.

(b) You must allocate processing costs among the gas plant products. You must determine a separate processing allowance for each gas plant product and processing plant relationship. Natural gas liquids are considered as one product.

(c) The processing allowance deduction based on an individual product may not exceed 66 2/3 percent of the value of each gas plant product determined under §1206.174. 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 §1206.177.

(d) Processing cost deductions will not be allowed for placing lease products in marketable condition. These costs include among others, dehydration, separation, compression upstream of the facility measurement point, or storage, even if those functions are performed off the lease or at a processing plant. Costs for the removal of acid
§ 1206.180 How do I determine an actual processing allowance?

(a) Determining a processing allowance if you have an arm’s-length processing contract. (1) This paragraph explains how you determine an allowance under an arm’s-length processing contract.

(i) The processing allowance is the reasonable actual costs you incur to process the gas under that contract. Paragraphs (a)(1)(ii) and (iii) of this section provide a limited exception. You have the burden of demonstrating that your contract is arm’s-length. You are required to submit to ONRR a copy of your arm’s-length contract(s) and all subsequent amendments to the contract(s) within 2 months of the date ONRR receives your first report that deducts the allowance on the Form MMS-2014.

(ii) When ONRR conducts reviews and audits, we will examine whether the contract reflects more than the consideration actually transferred either directly or indirectly from you to the processor for the processing. If the contract reflects more than the total consideration, then ONRR may require that the processing allowance be determined under paragraph (b) of this section.

(iii) If ONRR determines that the consideration paid under an arm’s-length processing contract does not reflect the value of the processing because of misconduct by or between the contracting parties, or because you otherwise have breached your duty to the lessor to market the production for the mutual benefit of you and the lessor, then ONRR will require that the processing allowance be determined under paragraph (b) of this section. In these circumstances, ONRR will notify you and give you an opportunity to provide written information justifying your processing costs.

(2) If your arm’s-length processing contract includes more than one gas plant product and the processing costs attributable to each product can be determined from the contract, then the processing costs for each gas plant product must be determined in accordance with the contract. You may not take an allowance for the costs of processing lease production that is not royalty-bearing.

(3) If your arm’s-length processing contract includes more than one gas plant product and the processing costs attributable to each product cannot be determined from the contract, you must propose an allocation procedure to ONRR. You may use your proposed allocation procedure until ONRR issues its determination. You are required to submit all relevant data to support your proposal. ONRR will then determine the processing allowance based upon your proposal and any additional information ONRR deems necessary.