(b) (1) For residue gas and gas plant products, the quantity basis for computing royalties due is the monthly net output of the plant even though residue gas and/or gas plant products may be in temporary storage.

(2) If the value of residue gas and/or gas plant products determined pursuant to §1206.153 of this subpart is based upon a quantity and/or quality of residue gas and/or gas plant products that is different from that which is attributable to a lease, determined in accordance with paragraph (c) of this section, that value shall be adjusted for the differences in quantity and/or quality.

(c) The quantity of the residue gas and gas plant products attributable to a lease shall be determined according to the following procedure:

(1) When the net output of the processing plant is derived from gas obtained from only one lease, the quantity of the residue gas and gas plant products on which computations of royalty are based is the net output of the plant.

(2) When the net output of a processing plant is derived from gas obtained from more than one lease producing gas of uniform content, the quantity of the residue gas and gas plant products allocable to each lease shall be in the same proportions as the ratios obtained by dividing the amount of gas delivered to the plant from each lease by the total amount of gas delivered from all leases.

(3) When the net output of a processing plant is derived from gas obtained from more than one lease producing gas of nonuniform content, the quantity of the residue gas allocable to each lease will be determined by multiplying the amount of gas delivered to the plant from the lease by the residue gas content of the gas, and dividing the arithmetical product thus obtained by the sum of the similar arithmetical products separately obtained for all leases from which gas is delivered to the plant, and then multiplying the net output of the residue gas by the arithmetic quotient obtained. The net output of gas plant products allocable to each lease will be determined by multiplying the amount of gas delivered to the plant from the lease by the gas plant product content of the gas, and dividing the arithmetical product thus obtained by the sum of the similar arithmetical products separately obtained for all leases from which gas is delivered to the plant, and then multiplying the net output of each gas plant product by the arithmetic quotient obtained.

(4) A lessee may request ONRR approval of other methods for determining the quantity of residue gas and gas plant products allocable to each lease. If approved, such method will be applicable to all gas production from Federal leases that is processed in the same plant.

(d) (1) No deductions may be made from the royalty volume or royalty value for actual or theoretical losses. Any actual loss of unprocessed gas that may be sustained prior to the royalty settlement metering or measurement point will not be subject to royalty provided that such loss is determined to have been unavoidable by BLM or BSEE, as appropriate.

(2) Except as provided in paragraph (d) (1) of this section and §1202.151 (c), royalties are due on 100 percent of the volume determined in accordance with paragraphs (a) through (c) of this section. There can be no reduction in that determined volume for actual losses after the quantity basis has been determined or for theoretical losses that are claimed to have taken place. Royalties are due on 100 percent of the value of the unprocessed gas, residue gas, and/or gas plant products as provided in this subpart, less applicable allowances. There can be no deduction from the value of the unprocessed gas, residue gas, and/or gas plant products to compensate for actual losses after the quantity basis has been determined, or for theoretical losses that are claimed to have taken place.

§ 1206.156 Transportation allowances—
general.

(a) Where the value of gas has been
determined pursuant to §1206.152 or
§1206.153 of this subpart at a point (e.g.,
sales point or point of value determina-
tion) off the lease, ONRR shall allow a
deduction for the reasonable actual
costs incurred by the lessee to trans-
port unprocessed gas, residue gas, and
gas plant products from a lease to a
point off the lease including, if appro-
priate, transportation from the lease to
a gas processing plant off the lease and
from the plant to a point away from the
plant.

(b) Transportation costs must be al-
located among all products produced
and transported as provided in
§1206.157.

(c)(1) Except as provided in paragraph
(c)(3) of this section, for unprocessed
gas valued in accordance with §1206.152
of this subpart, the transportation al-
lowance deduction on the basis of a sales
type code may not exceed 50 percent of
the value of the unprocessed gas determined under
§1206.152 of this subpart.

(c)(2) For purposes of this section, natural gas liquids will
be considered one product.

(c)(3) Upon request of a lessee, ONRR
may approve a transportation allow-
ance deduction in excess of the limita-
tions prescribed by paragraphs (c)(1)
and (c)(2) of this section. The lessee
must demonstrate that the transpor-
tation costs incurred in excess of the
limitations prescribed in paragraphs
(c)(1) and (c)(2) of this section were rea-
sonable, actual, and necessary. An
application for exception (using Form
ONRR–4393, Request to Exceed Regu-
latory Allowance Limitation) must
contain all relevant and supporting
documentation necessary for ONRR to
make a determination. Under no cir-
cumstances may the value for royalty
purposes under any sales type code be
reduced to zero.

(d) If, after a review or audit, ONRR
determines that a lessee has improp-
erly determined a transportation al-
lowance authorized by this subpart,
then the lessee must pay any addi-
tional royalties, plus interest, deter-
mined in accordance with §1218.54 of
this chapter, or will be entitled to a
credit, with interest. If the lessee takes
a deduction for transportation on Form
ONRR–2014 by improperly netting the
allowance against the sales value of
the unprocessed gas, residue gas, and
gas plant products instead of reporting
the allowance as a separate entry,
ONRR may assess a civil penalty under
30 CFR part 1241.

§ 1206.157 Determination of transpor-
tation allowances.

(a) Arm’s-length transportation con-
tracts. (1)(1) For transportation costs incurred by a lessee under an arm’s-

length contract, the transportation al-
lowance shall be the reasonable, actual
costs incurred by the lessee for trans-
porting the unprocessed gas, residue
gas and/or gas plant products under
that contract, except as provided in
this subpart, the transportation allow-
ance deduction on the basis of a sales
type code may not exceed 50 percent of
the value of the residue gas or gas
plant product determined under
§1206.153 of this subpart. For purposes
of this section, natural gas liquids will
be considered one product.

(3) Upon request of a lessee, ONRR
may approve a transportation allow-
ance deduction in excess of the limita-
tions prescribed by paragraphs (c)(1)
and (c)(2) of this section. The lessee
must demonstrate that the transpor-
tation costs incurred in excess of the
limitations prescribed in paragraphs
(c)(1) and (c)(2) of this section were rea-
sonable, actual, and necessary. An
application for exception (using Form
ONRR–4393, Request to Exceed Regu-
latory Allowance Limitation) must
contain all relevant and supporting
documentation necessary for ONRR to
make a determination. Under no cir-
cumstances may the value for royalty
purposes under any sales type code be
reduced to zero.

(d) If, after a review or audit, ONRR
determines that a lessee has improp-
erly determined a transportation al-
lowance authorized by this subpart,
then the lessee must pay any addi-
tional royalties, plus interest, deter-
mined in accordance with §1218.54 of
this chapter, or will be entitled to a
credit, with interest. If the lessee takes
a deduction for transportation on Form
ONRR–2014 by improperly netting the
allowance against the sales value of
the unprocessed gas, residue gas, and
gas plant products instead of reporting
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