

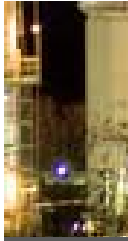
Should I Calculate My Own Unbundling Cost Allocations?



Royalty Audit/Compliance Workshop – PASO 2017

**WATSON
MILLICAN
& COMPANY**

The attendee will be aware of the considerations concerning generating their own unbundling cost allocations versus utilizing unbundling cost allocations published by the ONRR upon completion of this course.



ONRR Published UCA's Plant Specific

❖ UCA's currently (EOY, 2016) published on ONRR website (www.onrr.gov)

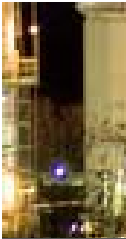
<u>Name</u>	<u>Type</u>	<u>Operator</u>	<u>Location</u>
Mobile Bay Gas Plant	Plant	Williams	AL
Venice Gas Plant	Plant	Targa	LA
Toca Gas Plant	Plant	Enterprise	LA
Eunice Gas Plant	Plant	Enlink	LA
Neptune Gas Plant	Plant	Enterprise	LA
North Terrebonne Gas Plant	Plant	Enterprise	LA
Stingray Gas Plant	Plant	Targa	LA
Yscloskey Gas Plant	Plant	Targa	LA
Calumet Gas Plant	Plant	Enterprise	LA
Opal Gas Plant	Plant	Williams	WY
Pascagoula Gas Plant	Plant	BP	MS
San Juan Transportation (Blanco)	Trans/Plant	COP	NM
San Juan Transportation (Chaco)	Trans/Plant	Enterprise	NM
Torre Alta Transportation (Lybrook)	Trans/Plant	Williams	NM
Buena Suerte Transportation System	Trans	Elm-Ridge	NM
Lybrook/Otero Transport – Huerfano Plant	Trans/Plant	Elm-Ridge	NM
San Juan Conventional (Ignacio)	Trans/Plant	Williams	NM
Carlsbad Transport and Plant	Trans/Plant	Enterprise	NM
Val Verde Transportation System and Plant	Trans/Plant	Enterprise	NM
Torre Alta Transportation System (Kutz)	Trans/Plant	Williams	NM
Manzanares Transportation System	Trans	Williams	NM



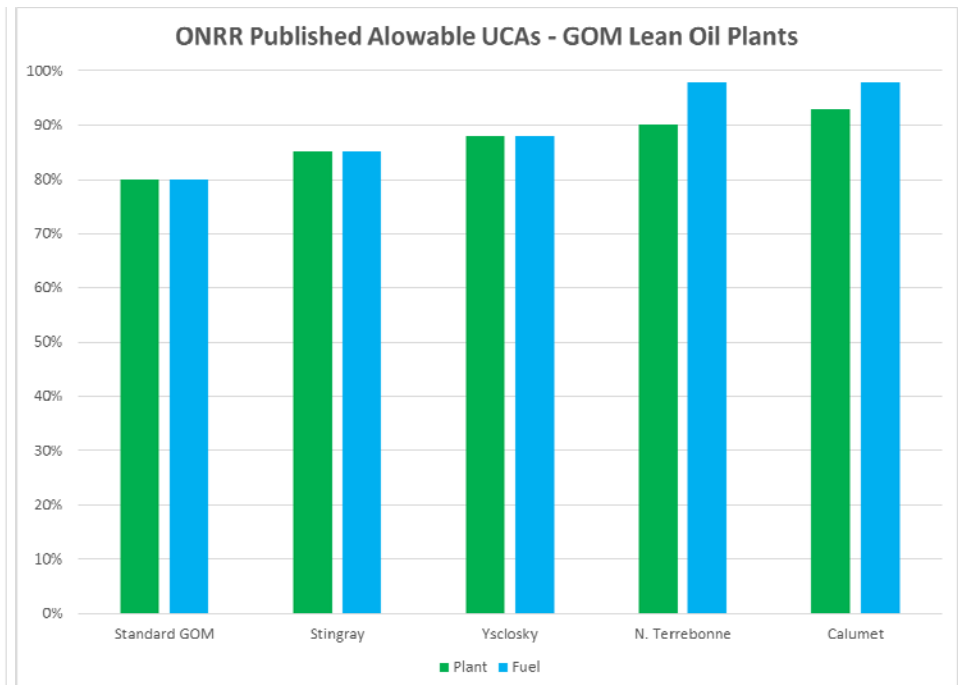
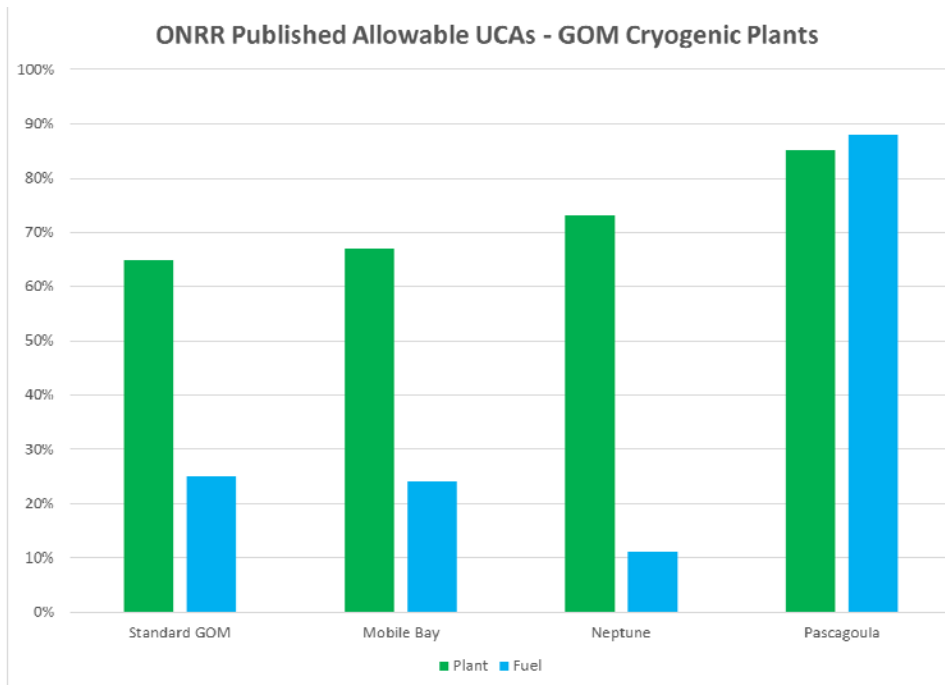
ONRR Published “Standardized” UCA’s

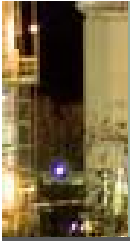
- ❖ The ONRR recently published standardized UCA’s for offshore Gulf of Mexico production that can be used only if the ONRR has not published a plant-specific UCA.

Technology	Plant UCA		Plant Fuel	
	(Allowed)	(Disallowed)	(Allowed)	(Disallowed)
Cryogenic	65%	35%	25%	75%
Lean-Oil	80%	20%	80%	20%



ONRR Standardized v. Plant Specific UCAs





ONRR Assumptions v. Actual Production Conditions

- ❖ The ONRR does not make public the assumptions, plant data, and operating condition utilized to generate the published UCA's.
- ❖ The condition of a producer's production at the point of delivery to the midstream service provider may not match the assumptions utilized by the ONRR to generate published UCA's.

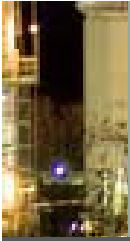
- ❖ Many transportation systems can simultaneously receive gas at low pressures (e.g. <150 psig), high pressures (e.g. >600 psig), or any where in between.
- ❖ The higher the delivery pressure, the less compression horsepower required to achieve marketable condition and thus lower disallowed compression costs.
 - Disallowed compression costs for a low pressure system can be significant (i.e. > 25% of total transportation costs).
 - Disallowed compression costs for a high pressure system can be substantially lower (i.e. < 5% of total transportation costs).

- ❖ Amine treating is performed to remove acid gases (i.e. CO₂ & H₂S).
 - Non-allowable cost: Residue pipelines specifications typically require CO₂ content <2%.
 - Allowable cost: Cryogenic processing requires CO₂ levels of 0-1%.
- ❖ Amine systems can represent 10-20% of processing cost.
- ❖ If producer's gas meets the marketable condition requirements of the residue pipeline, allowable processing costs can be increased by 5-10%.



Unbundled UCA vs. ONRR Published UCA

Plant	ONRR Published UCA	Watson Millican UCA
Opal Gas Plant (Cryogenic)	50% (2013 plant allowable)	65-75% (2013 plant allowable)
Yscloskey Plant (Lean Oil)	88% (2008-2012 plant allowable)	92% (2009-2012 plant allowable)



Questions?

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