

**IGNACIO PLANT AND SAN JUAN CONVENTIONAL TRANSPORTATION SYSTEM
COST ALLOCATION**

Please see attached example for an explanation on the application of the below percentages

SYSTEM-TO-PLANT ALLOCATION					
YEAR	2006	2007	2008	2009	2010
System	71.58%	76.22%	72.20%	75.02%	78.90%
Plant	28.42%	23.78%	27.80%	24.98%	21.10%
	100.00%	100.00%	100.00%	100.00%	100.00%

The following percentages apply after allocating the fee between the transportation system and the gas processing plant

SAN JUAN CONVENTIONAL CONVENTIONAL TRANSPORTATION SYSTEM COST ALLOCATION					
YEAR	2006	2007	2008	2009	2010
Allowed Costs	54.86%	61.69%	59.40%	62.83%	62.22%
Disallowed Costs	45.14%	38.31%	40.60%	37.17%	37.78%
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	0.00%	0.00%	0.00%	0.00%	0.00%
Fuel Disallowed	100.00%	100.00%	100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	100.00%	100.00%

Use the appropriate UCAs below based on where your gas is sold (El Paso or Transwestern Mainline):

IGNACIO PLANT COST ALLOCATION - GAS DELIVERED TO EL PASO NATURAL GAS					
YEAR	2006	2007	2008	2009	2010
Allowed Costs	39.87%	36.83%	36.13%	37.12%	37.92%
Disallowed Costs	60.13%	63.17%	63.87%	62.88%	62.08%
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	13.92%	13.92%	13.92%	13.92%	13.92%
Fuel Disallowed	86.08%	86.08%	86.08%	86.08%	86.08%
	100.00%	100.00%	100.00%	100.00%	100.00%

IGNACIO PLANT COST ALLOCATION - GAS DELIVERED TO TRANSWESTERN					
YEAR	2006	2007	2008	2009	2010
Allowed Costs	39.40%	36.35%	35.64%	36.64%	37.45%
Disallowed Costs	60.60%	63.65%	64.36%	63.36%	62.55%
	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Allowed	13.11%	13.11%	13.11%	13.11%	13.11%
Fuel Disallowed	86.89%	86.89%	86.89%	86.89%	86.89%
	100.00%	100.00%	100.00%	100.00%	100.00%

**IGNACIO PLANT AND SAN JUAN CONVENTIONAL 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:	\$0.48 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:	40 MMBtu
NGL Volume:	2,000 Gross Gallons	Plant Fuel:	60 MMBtu
			1,000 Ties to Wellhead MMBtu
			960 Calculated Inlet MMBtu

Example is for gas delivered to Transwestern

VOLUME AND VALUE REPORTING

Residue Volume (PC 03)

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	60	86.89% Non-Allowed		52	752
	60	13.11% Allowed		8	
		100.00%		60	

Residue Value (PC 03)

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
752	\$4.00	\$3,008.00

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.

NGL Value (PC 07)

Gallons	NGL Price	Sales Value (A * B)
A	B	C
2,000	\$1.00	\$2,000.00

Field Fuel Value (PC 15)

MMBtu	Residue Gas Price	Sales Value (A * B)
A	B	C
40	\$4.00	\$160.00

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	960	\$0.48	78.90%	\$0.3787	(\$363.55)	62.22%	(\$226.20)		
Field Fuel Value	40	\$4.00			(\$160.00)	0.00%	\$0.00		
					<u>(\$523.55)</u>		<u>(\$226.20)</u>	12.50%	<u>(\$28.28)</u>
									<u>(\$28.28)</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.

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	752	75.81%				(\$21.44)
07	200	20.16%				(\$5.70)
15	40	4.03%				(\$1.14)
	992	100.00%	(\$226.20)	12.50%	(\$28.28)	(\$28.28)

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	
*Processing Rate Cost	960	\$0.48	21.10%	(\$0.1013)	(\$97.25)	37.45%	(\$36.42)	12.50%	(\$4.55)

* 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		752	\$3,008.00	\$376.00	(\$21.44)		\$354.56
07 Natural Gas Liquids	2,000		\$2,000.00	\$250.00	(\$5.70)	(\$4.55)	\$239.75
15 Field Fuel		40	\$160.00	\$20.00	(\$1.14)		\$18.86
						Royalty Due ONRR	\$613.17

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>