



Michigan Department of Natural Resources - Office of Minerals Management
**SUMMARY OF GAS POST PRODUCTION COSTS FOR
 STATE OF MICHIGAN OIL AND GAS LEASES**

Submission of this information is required by authority of Part 5, Section 502, Act 451 of 1994, as amended, and pursuant to State of Michigan Oil and Gas lease terms. Noncompliance with lease requirements may result in placement on the Hold Action List and/or other legal remedies as determined necessary.

Contact Office of Minerals Management staff at 517-284-5844 if you have questions regarding this form.

Additional information is available at www.michigan.gov/minerals.

In accordance with the Standards, Schedules 1, 2 and 3 must be completed and submitted to the Lessor by July 1st of each Fiscal Year. The approved Fiscal Year is April 1st through March 31st of the following year, unless otherwise agreed to in writing by the Lessor.

Operator Name:	Preparer's Address:		
Contact Person:	City:	State:	Zip Code:
Preparer's Name:	Preparer's Phone:		

SCHEDULE 1 - Summary of Post Production Costs and Per Mcf Charge

Unit Area or Well Name: _____

For April 1, ____ to March 31, ____

(INSTRUCTIONS ON PAGE 4)		Gross Amount	Per Mcf	For DNR Audit Use (Leave Blank)
1	Actual Operating Expenses, Schedule 2	\$	\$	
2	Actual Amortization Expenses, Schedule 3			
3	Cost of Capital, Schedule 3			
4	Subtotal:			
5	Less: Reimbursements (compression, processing, other)			
6	Actual Post Production Costs			
7	Prior Year Variance Carried Forward			
8	Net Post Production Costs			
9	Less: Post Production Costs Withheld from Royalty			
10	Third Party Charges (identify): _____			

11	Less: Third Party Charges Withheld from Royalty			
12	Variance Carried Forward to Following Year:	\$	\$	
13	Actual Mcf Volume Produced:			

- Note: 1. Only costs specifically allowed in the Audit Calculations Standards, or approved in writing by the Lessor, may be deducted as a Post Production Cost.
2. 2003 Prior-Year Variance should be zero (0) unless otherwise approved in writing by the Lessor.

Preparer certifies that the information provided on Schedules 1, 2 and 3 is accurate and complete to the best of his or her knowledge.	
Preparer's Signature: _____	Date: _____

**RETURN THIS COMPLETED DOCUMENT (Schedules 1, 2 & 3) TO: OFFICE OF MINERALS MANAGEMENT
 MICHIGAN DEPARTMENT OF NATURAL RESOURCES
 PO BOX 30452
 LANSING MI 48909-7952**

SUMMARY OF GAS POST PRODUCTION COSTS for STATE OF MICHIGAN OIL AND GAS LEASES (continued)

SCHEDULE 2 - Post Production Operating Expenses and Per Mcf Charge

Unit Area or Well Name: _____

For April 1, _____ to March 31, _____

(INSTRUCTIONS ON PAGE 5)		Gross Amount	Per Mcf	For DNR Audit Use (Leave Blank)
1	Gas Compression Expenses (rental, contract and maintenance expenses)	\$		
2	Gas Scrubber, Gas Filter and Dehydration Expenses			
3	Gas Gathering Line Expenses (repair, materials and maintenance, if incurred before March 31, 2002)			
4	Gas Sales Line Expenses as defined in the Audit Calculations Standards Paragraph I.B(4).			
5	Direct Field Labor relating to the qualifying equipment			
6	Utilities incurred for operation of qualifying equipment (50% flat rate or separately metered)			
7	Chemical Injection Expenses for hydrate control and/or H2S removal			
8	Other Specify:			
9	Other Specify:			
10	Other Specify:			
11	Subtotal:	\$		
12	Pre 7/1996 Lease percentage	%		
13	Operating Expenses under Pre 7/1996 Leases			
14	CO ₂ , H ₂ S and Nitrogen Removal (allowed in Pre and Post 7/1996 Leases - no allocation)			
15	Total Post Production Operating Expenses:	\$		

Only costs specifically allowed in the Audit Calculations Standards, or approved in writing by the Lessor, may be deducted as a Post Production Cost.

SUBMIT THIS COMPLETED SCHEDULE WITH SCHEDULES 1 AND 3

**SCHEDULE 3 - Calculation of Capital Depreciation/Amortization
and Cost of Capital for Post Production Costs**

Unit Area or Well Name: _____

For April 1, _____ to March 31, _____

(INSTRUCTIONS ON PAGE 6)

	A	B	C	D	E	F	G	
	Equipment Classification	Date of Purchase	Total Amount to be Amortized	Accumulated Prior Year Amortization	Unamortized Balance	Current Year Recovery	End of Year Capital Balance	For DNR Audit Use (Leave Blank)
1	Chemical Injection		\$	\$	\$	\$	\$	
2	Scrubbers							
3	Separators							
4	Gathering Lines							
5	Sales Lines							
6	Electrical							
7	Facility							
8	Blowdown and Chemical Storage							
9	Dehydration Unit							
10	Compressor							
11	CO ₂ , H ₂ S, N ₂							
12	Other Specify: _____ _____							
13	Subtotals:		\$	\$	\$	\$	\$	
14	Pre 7/1996 lease allocation		%					
15	Post 7/1996 lease allocation (see note)		%					
16								
					Total:	\$		
					Per Mcf:	\$		

Cost of Capital Calculation

17	Unamortized Balance		\$					
18	End of Year Capital Balance							
				Subtotal:	\$			
19	Average Capital Balance for the Year				\$			
20	Cost of Capital				%			
21	Pre 1996 lease allocation percentage				%	\$	Total	
						\$	Per Mcf	

Only costs specifically allowed in the Audit Calculations Standards, or approved in writing by the Lessor, may be deducted as a PPC.

Note: Only PPC deductions for CO₂, H₂S, N₂ and transportation are allowed for Post-July 1996 leases.

SUBMIT THIS COMPLETED SCHEDULE WITH SCHEDULES 1 AND 2

Key for Schedule 1 - Summary

Lessor/State = Department of Natural Resources on behalf of the State of Michigan as Lessor holding the mineral ownership.

Schedule = Schedules to be used for reporting PPC deductions in accordance with the approved Standards.

Standard = Audit Calculations Standards approved by the Lessor.

PPC = Allowable "Post Production Cost" as provided for in the approved Standard, or other instrument as agreed to in writing by the Lessor.

Unit Area = Unit area is an individual drilling unit with a single well, or a voluntary unitized area, or a Uniform Spacing Plan authorized by the Supervisor of Wells under Order 14-9-94, or a plan of Unitization authorized by the Supervisor of Wells under Part 617.

Column Headings:

Gross Amount	The gross PPC deductions associated with the Unit Area.
Per Mcf	The rate per Mcf for the PPC deductions after applying the State's Decimal Interest associated with the Unit Area.

Row Descriptions:

- | | |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Actual Operating Expenses | From Line 12 of Schedule 2; provide Total Cost and Per Mcf. Per Standards I.B and I.E. |
| 2 Actual Amortization Expenses | From Line 16 of Schedule 3; provide Total Cost and Per Mcf. Per Standards I.A(14), I.D and I.E. |
| 3 Cost of Capital | From Line 23 of Schedule 3; provide Total Cost and Per Mcf. Per Standards I.A(14), I.D and I.E. |
| 4 Subtotal | Sum of Lines 1 through 3. Provide Total Cost and Per Mcf. |
| 5 Less: Reimbursements | Deduct all reimbursements received, e.g. compression and processing per Standard I.C.
NOTE: Include only compression reimbursements that have not already been paid as part of the gross proceeds under Post July 1996 leases. Pursuant to Standard I.C(2): "All reimbursements, including compression reimbursements, received by the Lessee/Operator and not otherwise credited to the Lessor's ownership interest must be used to reduce all the PPC taken." |
| 6 Actual Post Production Costs | Subtotal on Line 4 less reimbursements on Line 5. |
| 7 Prior Year Variance Carried Forward | Line 12 of the prior years Schedule 1. |
| 8 Net Post Production Costs | Actual PPC from Line 6 plus Prior Year Variance from Line 7. |
| 9 Less: Post Production Costs Withheld from Royalty | Actual amount withheld on remittances. |
| 10 Third Party Charges | Includes processing or transportation charges per Standard I.C. |
| 11 Less: Third Party Charges Withheld from Royalty | Actual amount withheld on remittances. |
| 12 Variance to be Carried Forward to Following Year: | Total PPC and amount per Mcf to be charged against the Lessor's royalty for the subsequent Fiscal Year. Lines 8,9, 10 and 11. |
| 13 Actual Mcf Volume Produced | Actual volume produced stated in Mcf measurement. |

Note: Noncompliance with lease terms may result in placement on the Hold Action List. Placement on the Hold Action List requires the State to withhold all discretionary approvals such as, new leases, well site surface use permits, easements, etc.

Key for Schedule 2 - Operating Costs

Lessor/State = Department of Natural Resources on behalf of the State of Michigan as Lessor holding the mineral ownership.

Schedule = Schedules to be used for reporting PPC deductions in accordance with the approved Standards.

Standard = Audit Calculations Standards approved by the Lessor.

PPC = Allowable "Post Production Cost" as provided for in the approved Standard, or other instrument as agreed to in writing by the Lessor.

Unit Area = Unit area is an individual drilling unit with a single well, or a voluntary unitized area, or a Uniform Spacing Plan authorized by the Supervisor of Wells under Order 14-9-94, or a plan of Unitization authorized by the Supervisor of Wells under Part 617.

Column Headings:

Gross Amount
Per Mcf

The gross PPC deductions associated with the Unit Area.

The rate per Mcf for the PPC deductions after applying the State's Decimal Interest associated with the Unit Area.

Row Descriptions:

1	Gas Compression Expenses	Rental, contract and maintenance expenses per Standard I.B(1).
2	Gas Scrubber, Gas Filter and Dehydration Expenses	Per Standard I.B(2).
3	Gas Gathering Line Expenses	Related costs incurred before March 31, 2002, or as agreed to in writing with the Lessor, would include repair, materials and maintenance per Standard I.B(3).
4	Gas Sales Line Expenses	Per Standard I.B(4).
5	Direct Field Labor	For qualifying equipment identified in Standard I.A. Requires time studies to be done annually for a two-week period per Standard I.B(5).
6	Utilities	For qualifying equipment identified in Standard I.A, unless separately metered, allocated at a flat rate of 50 percent per Standard I.B(7).
7	Chemical Injection Expenses for hydrate control and/or H ₂ S removal.	Per Standard I.B(2) and I.B(6).
8	Other Specify	Per Standard I.E, other operating costs as agreed to in writing by the Lessor. Enter zero if not applicable.
9	Other Specify	Per Standard I.E, other operating costs as agreed to in writing by the Lessor. Enter zero if not applicable.
10	Other Specify	Per Standard I.E, other operating costs as agreed to in writing by the Lessor. Enter zero if not applicable.
11	Subtotal	Sum of Lines 1 through 10.
12	Pre 7/1996 Lease percentage	Per Standard I.F, percentage of Pre July 1996 leases if a unit area is comprised of both Pre and Post July 1996 leases.
13	Operating Expenses under Pre 7/1996 Leases	Multiply Line 11 by Line 12.
14	CO ₂ , H ₂ S and N ₂ Removal	Allowed in Pre and Post July 1996 Leases - no allocation.
15	Total Post Production Cost Operating Expenses	Forward to Schedule 1, Line 1.

Key for Schedule 3 - Capital Costs

- Lessor/State = Department of Natural Resources on behalf of the State of Michigan as Lessor holding the mineral ownership.
 Schedule = Schedules to be used for reporting PPC deductions in accordance with the approved Standards.
 Standard = Audit Calculations Standards approved by the Lessor.
 PPC = Allowable "Post Production Cost" as provided for in the approved Standard, or other instrument as agreed to in writing by the Lessor.
 Unit Area = Unit area is an individual drilling unit with a single well, or a voluntary unitized area, or a Uniform Spacing Plan authorized by the Supervisor of Wells under Order 14-9-94, or a plan of Unitization authorized by the Supervisor of Wells under Part 617

Column Headings:

- A Equipment Classification = General description of allowable capital equipment identified in Standard I.A.
 B Date of Purchase = Use the following description for the year purchased:
 - If purchased between 4/1/1988 and 3/31/1993, use "Pre 1993."
 - If purchased after 3/31/1993, use the actual Month of Year of Purchase.
 C Total Amount to be Amortized = Original cost less allocation, if applicable.
 D Accumulated Prior Year Amortization = Amount previously amortized.
 E Unamortized Balance = Column C less Column D.
 F Current Year Recovery = Column C divided by 7, if not already fully depreciated, or fraction of year if applicable.
 G End of Year Capital Balance = Column E minus Column F.

Row Descriptions:

- 1 Chemical Injection Per Standard I.A(1), for hydrate control and/or H₂S removal.
 2 Gas Scrubbers Per Standard I.A(2), for H₂S removal.
 3 Filter separators Per Standards I.A(2) and I.A(3), for hydrate control, with 90% allocation, and/or H₂S removal.
 4 Gathering Lines Per Standard I.A(4), purchased between April 1, 1988 and March 31, 2002 with 90% allocation.
 5 Gas Sales Lines Per Standard I.A(5), includes related installation costs, e.g., dirt work, construction labor, surveying, cathodic protection for equipment purchased between April 1, 1988 and March 31, 2002. See Standard for post April 1, 2002 definition.
 6 Electrical For qualifying equipment identified in Standard I.A.
 7 Facilities Per Standard I.A(7), costs related to construction labor, materials, and services such as pipes, valves, fittings, concrete, dirt work, survey, crane, welding, etc which are related to the installation of qualifying equipment listed in Standard I.A. Costs for environmental safety and monitoring do not qualify nor do any building structures housing the qualifying equipment.
 8 Blowdown and Chemical Storage Per Standard I.A(8), costs including associated catwalk and stairway when used to service qualifying equipment listed in Standard I.A.
 9 Dehydration Unit Per Standard I.A(9).
 10 Compressor Per Standard I.A(10), compressor and related costs, including trucking and installation, less allocation for artificial lift operations, if any, and net of 10% salvage value. This excludes compressors/boosters used to enhance production that are located upstream of the Central Processing Facility. Also include modifications per Standard I.A(11).
 11 CO₂, H₂S and N₂ Removal Per Standard I.A(12), equipment related to the removal of these impurities.
 12 Other Equipment Per Standards I.A(13) and I.E.
 13 Subtotals Sum Lines 1 through 12.
 14 Pre 7/1996 Lease Allocation Per Standard I.F, percentage of Pre July 1996 leases (Column C) to calculate Column F. Line 13 (Column F) x Line 14 (Column C %) = Line 14 (Column F) Current Year Recovery.
 15 Post 7/1996 Lease Allocation Per Standard I.F, percentage of Post July 1996 leases (Column C) to calculate Column F. Line 11 (Column F) x Line 15 (Column C %) = Line 15 (Column F) Current Year Recovery. Note: Only CO₂, H₂S and N₂ costs are allowed for the Post July 1996 leases.
 16 Current Year Recovery Sum of Line 14 (Column F) and Line 15 (Column F). Forward to Schedule 1, Line 2.

Cost of Capital Calculation:

- Cost of Capital is only allowed for equipment purchased pursuant to Standard I.D. There is no Cost of Capital for equipment purchased after March 31, 2002.
 17 Unamortized Balance Line 13 (Column E).
 18 End of Year Capital Balance Line 13 (Column G).
 19 Average Capital Balance for the Year Average of Line 17 and Line 18. Formula is: Sum = [(Line 17 + Line 18)/2]
 20 Cost of Capital Prime Rate % published as of April 1st times Line 19.
 21 Pre 7/1996 Lease Allocation Percentage and Total Multiply Pre 7/1996 Lease allocation percent, Line 14 Column C, by Line 20 Column E. Forward Total and rate per Mcf to Schedule 1, Line 3.