MICHIGAN DEPARTMENT OF NATURAL RESOURCES
FOREST, MINERAL AND FIRE 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.

For additional information regarding this document, contact the Mineral and Land Management Section at 517-373-7663.
DNR Internet Website address: www.michigan.gov/dnr

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:**

MINERAL & LAND MANAGEMENT SECTION
FOREST, MINERAL and FIRE MANAGEMENT
MICHIGAN DEPARTMENT OF NATURAL RESOURCES
PO BOX 30452
LANSING MI 48909-7952

PR 4237 (07/24/2002)

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_2S 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_2S, 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 CO_2, 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	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	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_2S 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_2S 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 H_2S removal.
2	Gas Scrubbers	Per Standard I.A(2), for H_2S removal.
3	Filter separators	Per Standards I.A(2) and I.A(3), for hydrate control, with 90% allocation, and/or H_2S 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	CO_2, H_2S and N_2 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 CO_2, H_2S and N_2 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.