

NETBACK

EXPENSE REPORT FORM (NERF)

Rev 1/16

For the 2016 Assessment Year for Oil & Gas product sales occurring during the prior calendar year.

Well name and number _____ API number _____ COGCC Operator's number _____

Total volume of product produced _____ Mcf/Bbl Total product sold or transported from the premises unsold _____ Mcf/Bbl
 Wellhead (Net) value reported on the 2016 Oil and Gas Declaration **GAS** \$ _____ [\$ _____ per Mcf] **OIL** \$ _____ [\$ _____ per Bbl]
 Volume-weighted average downstream (Gross) sales price of product sold **GAS** \$ _____ [\$ _____ per Mcf] **OIL** \$ _____ [\$ _____ per Bbl]

Actual Point of Sale: Meter run Tank Battery Outlet Inlet processing plant
 Outlet processing plant Inlet transportation pipeline Other: _____

Charges/Expenses are: Actual or Allocated Actual or Allocated Actual or Allocated Actual or Allocated

WELLSITE PROCESSING GATHERING OFF-SITE PROCESSING TRANSPORTATION

UNRELATED PARTY EXPENSES | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl
Bundled Cost Expense | \$ _____ | \$ _____ Mcf/Bbl | Bundled Expense includes: Gathering Processing Transportation

RELATED PARTY EXPENSES

DIRECT OPERATING COSTS

Related party cost | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl

RETURN ON INVESTMENT (ROI)

Related party cost | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl

Avg. Undepr. Invest. Balance | \$ _____ | \$ _____ | \$ _____ | \$ _____

ROI rate used | _____ % | _____ % | _____ % | _____ %

RETURN OF INVESTMENT (RofI)

Related party cost | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl | \$ _____ | \$ _____ Mcf/Bbl

1/01/15 Remaining Equip. Invest. Bal. | \$ _____ | \$ _____ | \$ _____ | \$ _____
 Equipment economic life used | _____ years (lives) | _____ years (lives) | _____ years (lives) | _____ years (lives)

1/01/15 Remaining Imprvmt. Invest. Bal. | \$ _____ | \$ _____ | \$ _____ | \$ _____
 Improvement economic life used | _____ years (lives) | _____ years (lives) | _____ years (lives) | _____ years (lives)

1/01/15 Estimate of Remaining Reserves | _____ Mcf | _____ Mcf | _____ Mcf | _____ Mcf
 | _____ Bbls | _____ Bbls | _____ Bbls | _____ Bbls

2016 OIL AND GAS NETBACK EXPENSE REPORT FORM Rev 1/16 Taxpayer Instructions
--

This form is designed for providing written documentation supporting netback wellsite processing, gathering, off-site processing, and transportation expenses deducted by Colorado oil and gas producers to determine wellhead selling prices for property tax purposes. This form has been created for and must be completed to procedures developed under 39-7-101(1)(d), C.R.S. **Netback information should be filed on a per well basis. However, this information may be filed on a lease or unitized field basis provided all wells contained within the lease or unitized field are listed separately for review by the assessor and gross sales prices and netback expenses are allocated to each well so that the netback wellhead selling price reported matches the price reported on the DS 658 Oil and Gas Declaration Schedule submitted to the county.** If a question arises regarding allowable expense deductions, refer to ARL Volume 3, Chapter 6, Real Property Valuation Manual and/or contact the county assessor.

- **WHO SHOULD FILE?** - Any oil and gas producer and take-in-kind (TIK) royalty owner whose product has been transported from the premises to a point of sale downstream from the wellhead, including oil and/or natural gas, helium, and CO₂ from oil and gas wells located in Colorado. This form is designed for assessors to compile, review, and verify netback deductions allowable under 39-7-101(1)(d), C.R.S., by operators and TIK owners. If you are unsure whether you should complete this form, contact the county assessor. **IF YOU HAVE AN ACTUAL WELLHEAD SALES PRICE AND/OR ARE NOT TAKING ANY NETBACK DEDUCTIONS FROM YOUR DOWNSTREAM POINT OF SALE, YOU DO NOT HAVE TO FILE THIS FORM.**
- **WHEN SHOULD YOU FILE?** - Under 39-7-101(2), C.R.S., you must file this form by April 15 or within 30 days of the postmark of the assessor's written request, whichever comes last.
- **WHAT HAPPENS IF YOU DO NOT FILE?** - For willful failure or refusal to comply, the assessor may apply a \$100 per day penalty up to a total of \$3000 and may also assign a Best Information Available (BIA) wellhead value based on sales of other oil and gas products within the field or other BIA calculation methods. Refer to 39-7-101(2) and 39-7-104, C.R.S., for further information.
- **WHAT HAPPENS AFTER YOU SUBMIT THIS FORM?** - The assessor will compile and statistically review the netback expenses deducted by all operators and TIK owners for oil and gas products sold during the preceding calendar year. If the assessor has additional questions or needs additional documentation of gross selling price or netback expenses, the assessor will notify you about the information needed, 39-5-115, C.R.S.

General Well Information

Please furnish the following information regarding the well:

- Well name and number. Please use the American Petroleum Institute (API) number as the well number.
- Total volume of product (oil, gas, CO₂, helium, etc.) produced during the preceding calendar year (2015)
- Total volume of product (oil, gas, CO₂, helium, etc.) sold or transported from the premises unsold for the preceding calendar year (2015)
- Volume-weighted average wellhead value of the product sold and at the downstream point of sale
- Actual point of sale

The volume-weighted sales price information must be the volume-weighted average downstream sales price of the product from which the netback expenses are deducted.

Unrelated Party Expenses

If you are claiming a netback deduction for fees or charges for wellsite processing, gathering, off-site processing, or transportation to the point of sale by an unrelated party, these charges must be listed here. You may be asked by the assessor to substantiate that these charges are actual expenses or have been properly allocated and that there is no relationship between you and the provider of the service. If the fee or charge for downstream services is "bundled" (more than one service cost included in the amount charged), include the total amount paid as a bundled cost deduction and note which downstream services are included in the fee or charge.

Related Party Expenses

Netback deductions claimed for services by parties related to the producer are subject to specific procedural criteria. "Related parties" are defined as individuals who are connected by blood or marriage; or partnerships; or businesses which are subsidiaries of the same parent company or are associated by one company controlling or holding ownership of the other company's stock or debt. For specific information on allowable related party deductions, refer to Chapter 6, ARL Volume 3, Real Property Valuation Manual published by the Division of Property Taxation. **If you have claimed related party netback deductions, you must complete the Supplemental Information Report Form (SIRF) as well as this form. Contact the county assessor if you do not have a copy of the Supplemental Information Report Form.**

Direct Operating Costs

Expenses for salaries, benefits, maintenance expenses, materials and supplies, equipment property taxes, insurance, payroll taxes, utilities, rental expenses, and other allocated direct general and administrative overhead costs by a related party should be listed here. Refer to Chapter 6, ARL 3 for a list of allowable and non-allowable operating costs.

Return on Investment (ROI)

Deductions for ROI for each downstream service provided by a related party must be listed here. Also, list the 2015 average investment balance for all equipment and improvement items still subject to depreciation and the ROI rate used to calculate the deduction. Refer to Chapter 6, ARL 3 for additional information regarding this deduction. **For 2016, the allowable ROI threshold rate is 4.32% (published BBB bond rate).**

Return of Investment (RofI)

Deductions for RofI for downstream services provided by a related party must be listed here. Also, list the 1/01/15 undepreciated investment balance for both equipment and improvement items that are still subject to depreciation, equipment and improvement lives, and/or your estimate of the remaining economic reserves used to calculate the deduction. Refer to Chapter 6, ARL 3 for additional information. Economic reserve estimate information need be submitted only if the units-of-production method is used.

SUPPLEMENTAL INFORMATION REPORT FORM (SIRF)
(For Related Party Netback Expenses)
For the 2016 Assessment Year for Oil & Gas product sales occurring during the prior calendar year.

Rev. 1/16

Well name and number _____ API number _____ COGCC Operator's number _____

Total volume of product sold/transported in Mcf/Bbls _____ Mcf _____ Bbls

Netback Deductions:
TOTAL EXPENSES

Direct Operating Expenses

	<u>Wellsite</u>	<u>Processing</u>	<u>Gathering</u>	<u>Off-Site Processing</u>	<u>Transportation</u>
	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

Return on Investment (ROI)

1/01/15 Undepr. Plant Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
12/31/15 Undepr. Plant Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
2015 Avg. Undepr. Plant Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
Actual ROI Rate (up to 4.32%)	X _____ %	X _____ %	X _____ %	X _____ %

Total ROI Deduction \$ _____ \$ _____ \$ _____ \$ _____

Return of Investment (Rofl) Using Straight Line Recapture

Remaining Economic life of Equip.	_____ yrs	_____ yrs	_____ yrs	_____ yrs
Remaining Economic life of Imprvmts.	_____ yrs	_____ yrs	_____ yrs	_____ yrs
1/01/15 Undepr. Equip. Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
1/01/15 Undepr. Imprvmt. Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
Annual Rofl Rate for Equip.	X _____ %	X _____ %	X _____ %	X _____ %
Annual Rofl Rate for Imprvmts.	X _____ %	X _____ %	X _____ %	X _____ %

Total Rofl Deduction \$ _____ \$ _____ \$ _____ \$ _____

Return of Investment (Rofl) Using Units of Production Method

Estimate Remaining Reserves (Mcf or Bbls)				
1/01/15 Undepr. Plant Invest. Balance	\$ _____	\$ _____	\$ _____	\$ _____
Percent of Remaining Reserves Produced	X _____ %	X _____ %	X _____ %	X _____ %

Total Rofl Deduction \$ _____ \$ _____ \$ _____ \$ _____

**2016 SUPPLEMENTAL INFORMATION REPORT FORM
Taxpayer Instructions**

This supplemental form is designed for reporting related party documentation and supplemental information regarding netback wellsite processing, gathering, off-site processing, and transportation expenses deducted by Colorado oil and gas producers to determine wellhead selling prices for property tax purposes. This form has been created for and must be completed pursuant to procedures under 39-7-101(1)(d), C.R.S. If a question arises regarding allowable expense deductions, refer to Assessors Reference Library (ARL) Volume 3, Chapter 6, Real Property Valuation Manual and contact the assessor.

- **WHO SHOULD FILE?** - Any oil and gas producer and take-in-kind (TIK) royalty owner that has deducted netback wellsite processing, gathering, off-site processing, or transportation charges provided by a related party on the basic Oil and Gas Netback Expense Reporting Form, must file this form detailing the expenses deducted. **If all netback expense charges listed on the basic Netback Expense Reporting Form are provided by unrelated parties, you do not have to complete this form.** If you have not received a copy of the basic Netback Expense Reporting Form, contact the county assessor. "Related parties" are defined as individuals connected by blood or marriage; or partnerships; or businesses that are subsidiaries of the same parent company or are associated by one company controlling or holding ownership of the other company's stock or debt.
- **WHEN SHOULD YOU FILE?** - Under 39-7-101(2), C.R.S., you must file this form as well as the basic Netback Expense Reporting Form, by April 15 or within 30 days of the postmark of the assessor's written request, whichever comes last.
- **WHAT HAPPENS IF YOU DO NOT FILE?** - For willful failure or refusal to comply, the assessor may apply a \$100 per day penalty up to a total of \$3000 and may also assign a Best Information Available (BIA) wellhead value based on sales of other oil and gas products within the field or utilize other BIA calculation methods. Refer to 39-7-101(2) and 39-7-104, C.R.S., for further information.
- **WHAT HAPPENS AFTER YOU SUBMIT THIS FORM?** - The assessor will review the supplemental information provided to ascertain that it complies with the allowable deductions and deduction calculation methods contained within ARL Volume 3, Chapter 6, Real Property Valuation Manual. Under 39-5-115, C.R.S., if the assessor has additional questions or needs additional documentation of gross selling price or netback expenses, the assessor will notify you regarding the information needed.

General Well Information

Please furnish the following information regarding the well.

- Well name and number. Please use the American Petroleum Institute (API) number as the well number.
- Total volume of product sold and/or transported during the preceding calendar year

This information must match the information reported on the basic Netback Expense Reporting Form that is filed as part of this return.

Listing of Netback Deductions

Itemize the direct operating expense deductions claimed for wellsite processing, gathering, off-site processing, or transportation to the point of sale. For specific information on allowable and non-allowable related party expense deductions, refer to ARL Volume 3, Chapter 6.

Listing and Computation of Return on Investment (ROI)

Please list the following information in the spaces provided for related party netback wellsite processing, gathering, off-site processing, and transportation expenses claimed. **For 2016, the allowable ROI threshold rate is 4.32% (published BBB bond rate).**

- The remaining undepreciated plant investment balance as of 1/01/15
- The remaining undepreciated plant investment balance as of 12/31/15
- The average undepreciated investment balance determined by adding the 1/01/15 and 12/31/15 balances and dividing by two (2)
- The actual return on investment (ROI) for the listed operation component (up to the allowable published BBB bond rate of 4.32% for 2016)

The ROI deduction is calculated by multiplying the average plant investment balance by the ROI rate listed. For specific information on allowable related party ROI deductions, refer to ARL Volume 3, Chapter 6.

Listing and Computation of Return of Investment (RofI) using Straight-Line Recapture

Please list the following information in the spaces provided for related party netback wellsite processing, gathering, off-site processing, and transportation expenses claimed.

- The remaining economic lives assigned by the company for the equipment and improvement items used in wellsite processing, gathering, off-site processing, or transportation operations
- The 1/01/15 remaining undepreciated investment balance determined for equipment
- The 1/01/15 remaining undepreciated investment balance determined for improvements

The annual RofI rate for equipment and improvements is calculated by dividing the number one (1) by the remaining economic life assigned for the asset by the company. The allowable RofI deduction is calculated by multiplying the 1/01/15 equipment and improvements remaining undepreciated investment balances by the annual RofI rate calculated above. For specific information on allowable related party RofI deductions, refer to ARL Volume 3, Chapter 6.

Listing and Computation of Return of Investment (RofI) using the Units-of-Production Method

Please list the following information in the spaces provided for related party netback wellsite processing, gathering, off-site processing, and transportation expenses claimed.

- The estimated remaining reserves. (Mcf or Bbl)
- The 1/01/15 remaining undepreciated plant investment balance.
- The percent of estimated remaining economic reserves produced during the preceding calendar year. If requested, you will need to provide the assessor with adequate documentation, such as Federal depletion allowance information, supporting your latest estimate of remaining economic recoverable reserves.

The RofI deduction is calculated by multiplying the 1/01/15 plant investment balance by the percentage of remaining economic reserves produced during the preceding calendar year. For specific information on allowable related party RofI deductions, refer to ARL Volume 3, Chapter 6.