

GROSS REVENUE EXCLUSION

House Resources Committee

March 22, 2013

Department of Natural Resources

- Joe Balash, Deputy Commissioner



HOW DOES PRODUCTION QUALIFY FOR THE GRE?

- **Three ways to qualify:**

1. Production from a Unit formed after 2003
 - Nikaitchuq Unit, Oooguruk Unit
2. Production from a PA formed after 2012 which is in a unit formed prior to 2003
 - New PA at Prudhoe Bay
3. Production from a portion of a reservoir in any existing PA that has been shown to DNR as not previously contributing to production from that PA.
 - Kuparuk River Unit, Kuparuk PA, Shark's Tooth

WHAT *is* a PARTICIPATING AREA (PA)?

A set of tracts within a Unit, overlying a reservoir which is on sustained production

- North Slope: 18 State Units, 38 PAs
- A unit may have multiple reservoirs at different depths – each PA is defined vertically as well as horizontally
- Leases approved for inclusion into a PA may not be severed
- PA provides mechanism to allocate costs and revenues

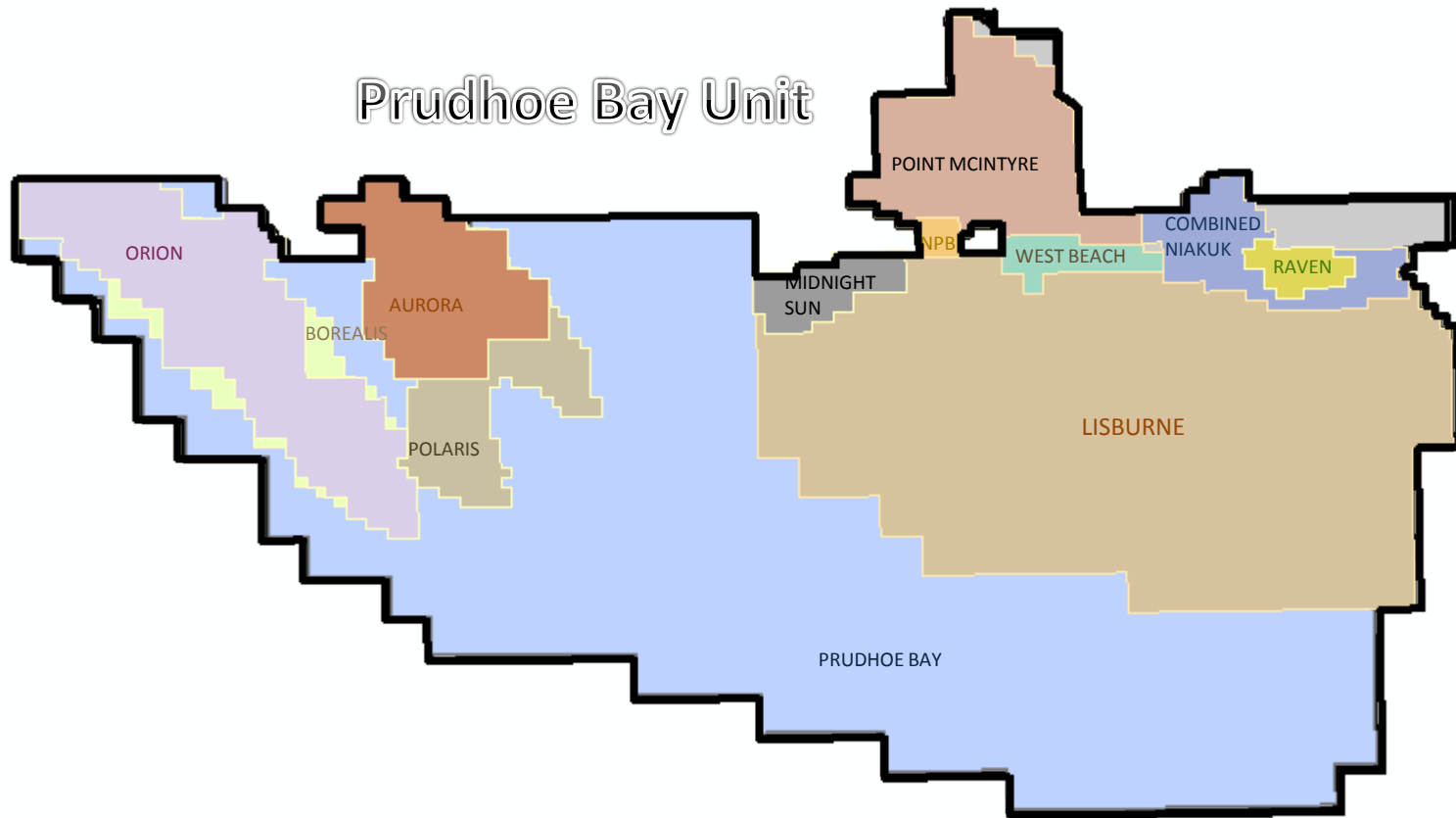
Regulations

- 11 AAC 83.351 PA Formation, Expansion, Contraction
- 11 AAC 83.343 Plans of Development
- 11 AAC 83.371 Allocation of Production and Costs
- 11 AAC 83.303 Protect all parties

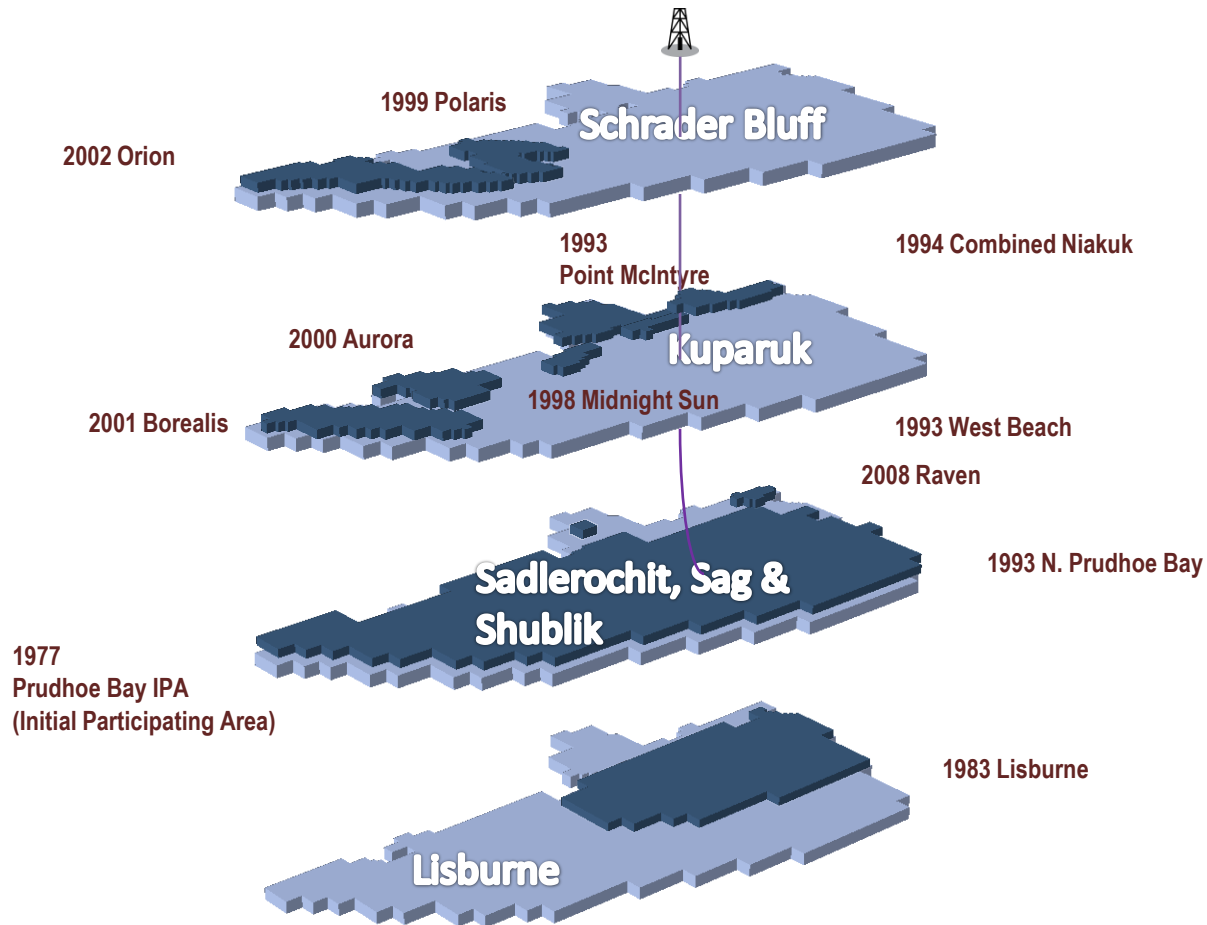
NORTH SLOPE PAS



PRUDHOE BAY UNIT



PRUDHOE BAY UNIT



EVALUATION *and* APPROVAL of PAs

11 AAC 83.351: PA Formation, Expansion, Contraction

- PA may include only the land capable of producing or contributing to production of hydrocarbons in paying quantities
- PA must be contracted to exclude acreage incapable of contributing to production of hydrocarbons in paying quantities

11 AAC 83.303 Criteria

- Promote conservation
- Prevent waste
- Protect all parties

EVALUATION *and* APPROVAL of PAs

PA application has no regulatory deadline as with unit applications

- **Operator submits application no later than 90 days prior to sustained production**
- **Submittal includes Exhibits C and D, legal description with allocation factors, and map**
 - Allocation factors allocate production to each tract
- **Must include Exhibits E and F if Net Profit Share (NPS) leases included**
 - NPS leases require accounting of costs and revenues to determine “pay out”. Exhibits E and F provides methodology and basis for cost allocation, used by Royalty Accounting and Audit

PA EXHIBITS C and D

NIKAITCHUQ UNIT AGREEMENT: Exhibit C

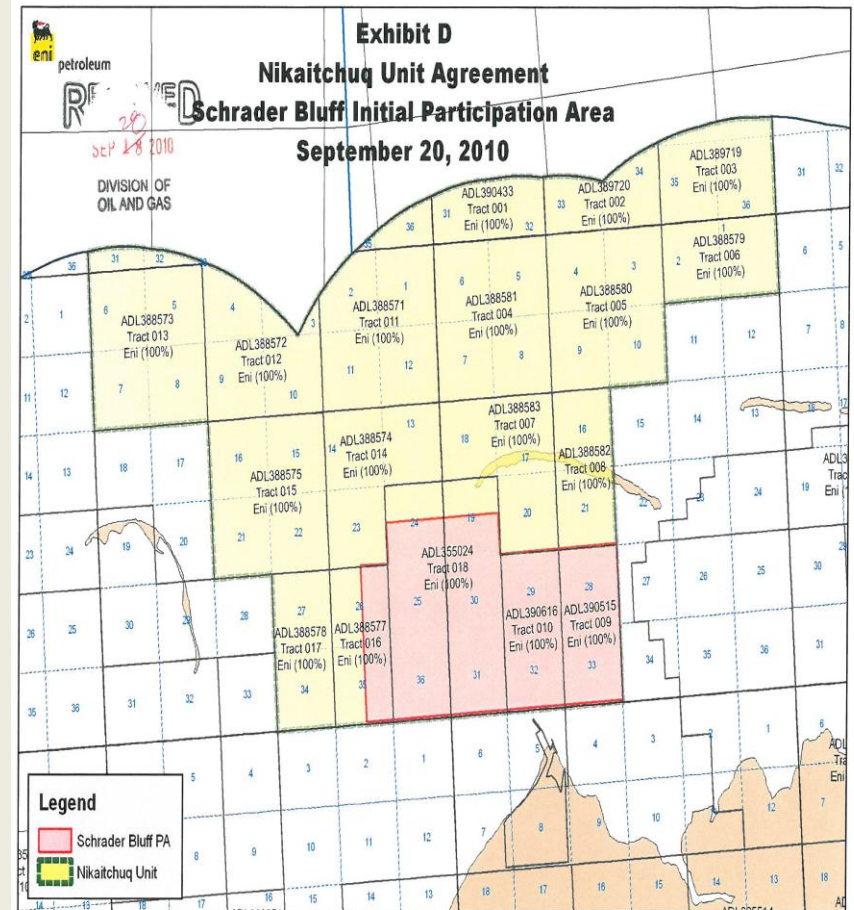
SCHRADER BLUFF PARTICIPATING AREA Nikaitchuq Unit Area

September 20, 2010

Unitized Acres Within Participating Area	Royalty Rate	ORRI Owners	Overriding Royalty Interest	Working Interest Owners & Percentage Working Interest	Unit/Tract Participation (Based on Surface Acres)
640.0000	0.18857	GMT Exploration North Slope Royalty Company, LLC	0.13333	Eni: 100%	28.15%
640.0000		Win D Armstrong	0.72797		
1280.0000		Jesse V Sommer	0.02167		
		Edgar Klar	0.02167		
		Jeffery A Lylo	0.02167		
		Patricia M Reed	0.02167		
		Matthew K Furr	0.02167		
		Stuart W Gustafson	0.02167		
		Chester E Paris	0.00867		
		total	0.96999		
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		Matthew K Furr	0.02167		
		Stuart W Gustafson	0.02167		
		Chester E Paris	0.00867		
		total	0.96999		
320.0000	0.18867	ConocoPhillips	4.260%	Eni: 100%	10.08%
320.0000					
640.0000		total	4.260%		
320.0000	0.12000	ConocoPhillips	3.334%	Eni: 100%	48.62%
640.0000	36% NPS	BP	2.357%		
640.0000		Exxon	0.200%		
		Unocal	0.267%		
308.5000		William D. Armstrong	0.486070%		
630.0000		Jesse V. Sommer	0.014960%		
630.0000		Edgar Klar	0.014960%		
3181.5000		Jeffery A. Lylo	0.014960%		
		Patricia M. Reed	0.014960%		
		Matthew K. Furr	0.014960%		
		Stuart W. Gustafson	0.014960%		
		Chester E. Paris	0.008650%		
		GMT Exploration Company, LLC	0.008650%		
		total	8.649020%		
6361.5000					
6361.5000					
0.0000					
6,361.50					

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RECEIVED
SEP 28 2010
DIVISION OF OIL AND GAS



PA PLAN *of* DEVELOPMENT

- **Once development activities commence and/or a PA is formed, A Plan Of Development (POD) is required under 11 AAC 83.343**
 - Describes plans to develop the reservoir
 - Development activities: facilities, pipelines, offshore production islands, gathering lines, and permanent drill sites.
 - POD is submitted annually for review and approval
 - If POD deemed insufficient for approval, DNR may propose modifications. If Operator agrees to modification, POD approved
 - If modifications not accepted by Operator and reviewed POD not approved, current POD may expire.

TRACT ALLOCATION FACTORS

11 AAC 83.371

- **Approval of PA includes approval of Allocation Factors (Tract Factors, or TF) to protect all parties**
 - Exhibit C designates each PA tract a TF
 - Bases for calculating TF proscribed in Operating Agreement sometimes Unit Agreement or approval decision
 - Acreage
 - Original Oil in Place (OOIP)
 - Recoverable
 - Value Based
- **Working Interest Owners receive revenue based on TF**
 - Equity negotiations
- **State of Alaska receives royalties based on TF**
 - Commercial interest evaluation

REVISIONS *to* DIVISION *of* INTEREST: REALLOCATIONS

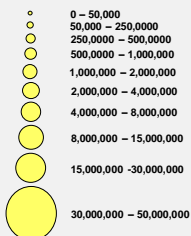
- **Production is reallocated**
 - As PA expands of contracts
 - Development wells identified and committed to in Plan of Development
 - Expansion of Milne Point Unit Sag River PA
 - Contraction of Milne Point Unit Sag River PA
 - As basis for allocation changes
 - Field matures, more technical information gathered and evaluated, production is reallocated
 - Revised Exhibit C designates each PA tract a TF
 - Bases for calculating TF proscribed in Operating Agreement sometimes Unit Agreement or approval decision
 - Acreage, OOIP, Recoverable, Value Based
 - Resource Evaluation, Commercial, Royalty Accounting, Audit Sections
 - Evaluation of protection of State's Interest
 - Protection of all parties

KUPARUK RIVER UNIT (KRU)

KRU Boundary

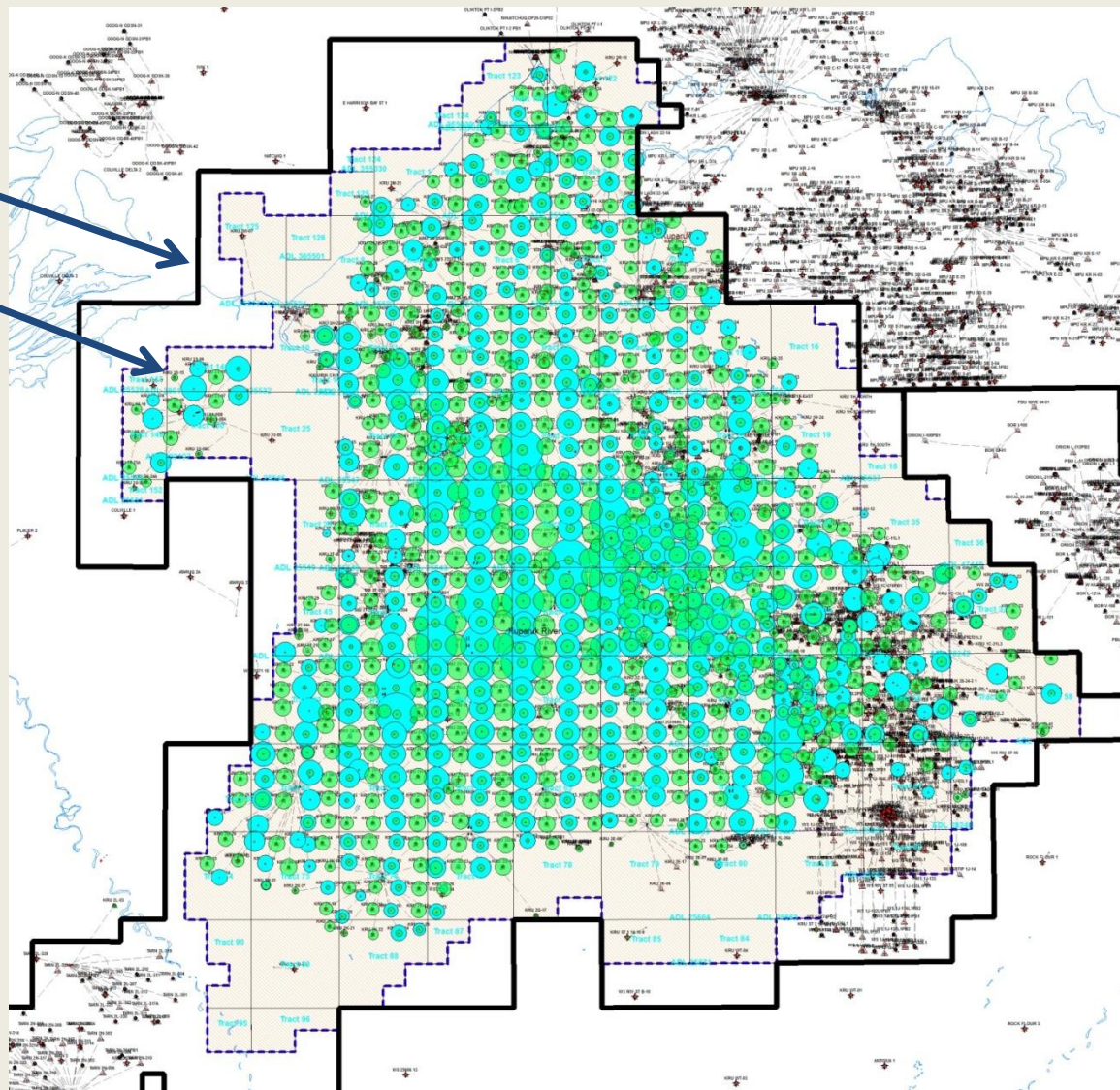
Kuparuk PA Boundary

Cumulative Barrels (KPA)



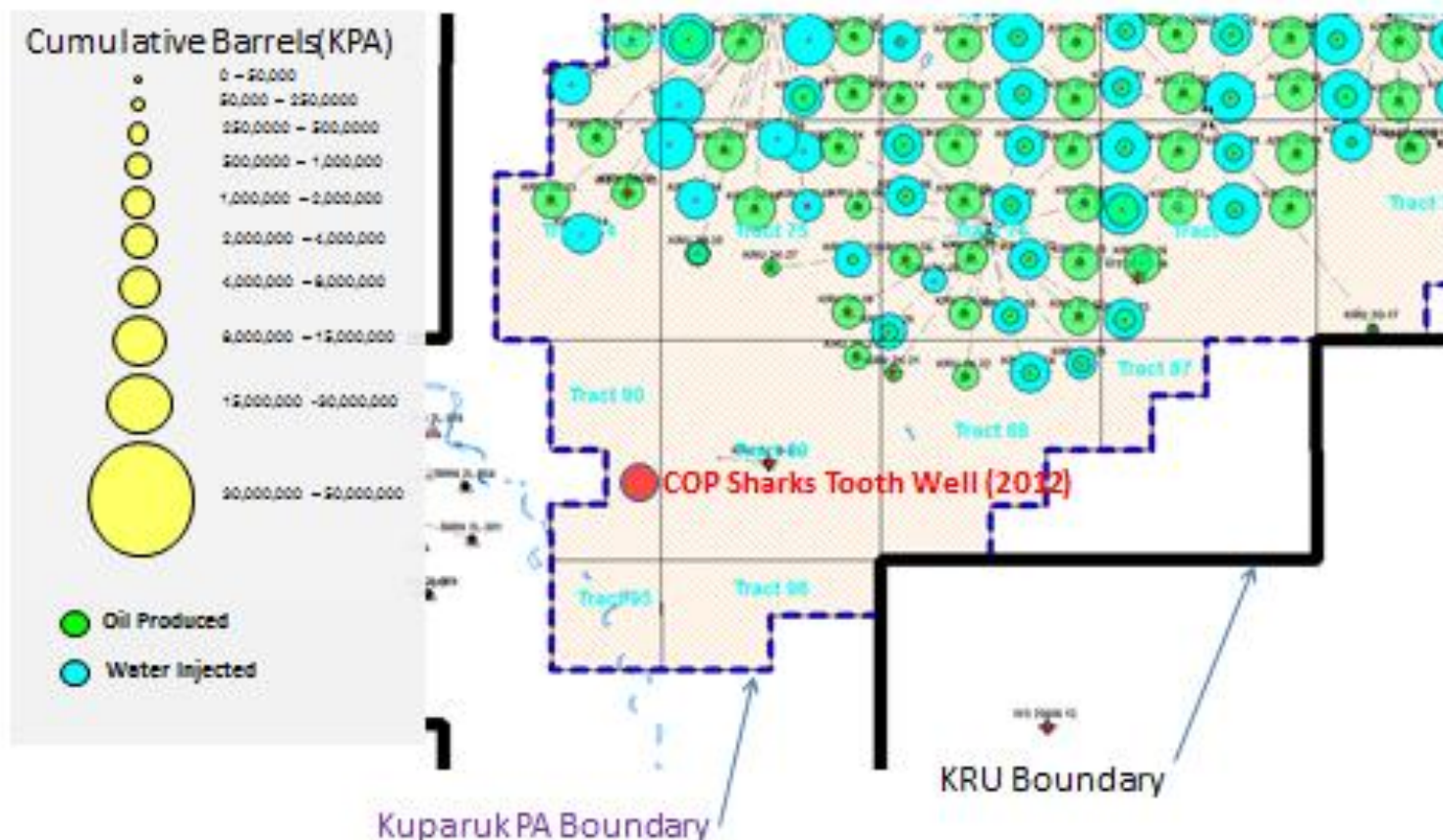
Oil Produced

Water Injected



KUPARUK RIVER UNIT (KRU)

Southwest Portion Kuparuk River Unit (KRU)



QUESTIONS?