

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 148 3216

1 (2) "Base O&M Component" is the per MCP amount deter-
2 mined by dividing:
3

4 (i) "Plant O&M Costs" (the total of: (A) all
5 costs, other than ad valorem taxes, attributable
6 to operating, maintaining and repairing the Gas
7 Conditioning Plant during the Initial Period (in-
8 cluding overhead and, in the case of a Non-Unit
9 Plant, the cost of plant fuel), plus (B) (i) in
10 the case of a Unit Plant, a portion of all such
11 costs for Support Facilities during the Initial
12 Period, allocated on the basis set forth in Subsec-
13 tion 3.2.24, or (ii) in the case of a Non-Unit
14 Plant, the value of any gas contributed in kind
15 to said plant during the Initial Period for use
16 as plant fuel,
17

18 by:
19

20 (ii) Total Plant Throughput for the Initial Period;
21 and
22

23 (3) said estimates of the Base Investment Component
24 and the Base O&M Component are determined in accordance
25 with Paragraph 3.8.1(b).
26

27 (b) Procedure. Lessees who own an interest (or whose
28 Affiliates own an interest) in a Gas Conditioning Plant
29 shall cause the operator of such plant (or, if he fails
30 to do so, the Lessee who owns (or whose Affiliate owns)
31 the greatest interest in said plant) to estimate the Base
32 Investment Component and Base O&M Component; to calculate

1 the Initial Amount using the formula prescribed in Paragraph
2 3.8.1(a); and to furnish to said Lessees a worksheet showing
3 said amount, the manner in which said amount was calculated
4 and the projections and estimates used in calculating said
5 amount (including the estimated Total Plant Throughput for
6 each calendar month occurring prior to the end of the Initial
7 Period). Said Lessees shall notify the Commissioner of
8 the Initial Amount prior to the end of the calendar month
9 during which Major Gas Sale occurs.

10
11 3.8.2 Base Amount.

12
13 (a) Formula. With respect to Royalty Gas measured
14 for royalty purposes during a particular calendar month
15 after the end of the calendar month during which the Com-
16 missioner is notified of the Base Amount and prior to the
17 end of the Base Period, the Calculated Conditioning Cost
18 shall be the amount per MCF (hereinafter, the "Base Amount")
19 determined by using the following formula:

20
21
$$\begin{array}{lcl} \text{Base Amount} & & \text{Base Investment} \\ \text{per MCF} & = & \text{Component} \end{array} \quad \begin{array}{lcl} & & \text{Base O\&M} \\ & & \text{Component,} \end{array}$$

22
23
24 where:

25
26 (1) "Base Investment Component" is the per MCF amount
27 determined as provided in Subparagraph 3.8.1(a)(1);
28 and

29
30 (2) "Base O&M Component" is the per MCF amount deter-
31 mined as provided in Subparagraph 3.8.1(a)(2).
32

1 (b) Procedure. Lessees who own an interest (or whose
2 Affiliates own an interest) in a Gas Conditioning Plant
3 shall cause the operator of such plant (or, if he fails
4 to do so, the Lessee who owns (or whose Affiliate owns)
5 the greatest interest in said plant) to calculate the Base
6 Amount using the formula prescribed in Paragraph 3.8.2(a),
7 and to furnish to said Lessees a worksheet showing said
8 amount, the manner in which said amount was calculated and
9 the figures from which each component in said formula was
10 derived. Said Lessees shall notify the Commissioner of
11 the Base Amount not later than sixty days after the end
12 of the Initial Period.

13
14 3.8.3. Adjusted Amount.

15
16 (a) Formula. With respect to Royalty Gas measured
17 for royalty purposes during any calendar month of a partic-
18 ular calendar year after the end of the Base Period, the
19 Calculated Conditioning Cost shall be the amount per MCF
20 (hereinafter, the "Adjusted Amount") determined by using
21 the following formula:

22
23
24 Adjusted Amount = Adjusted + Adjusted
25 per MCF Investment O&M
26 Component Component,

27 where:

28
29 (1) "Adjusted Investment Component" is the per MCF
30 amount determined by using the following formula:

$$\begin{array}{lcl} \text{Adjusted} & & \text{Plant Investment Costs} \\ \text{Investment} & = & \text{as of December 31 of} \\ \text{Component} & = & \text{the year prior to the} \\ & & \text{Year Of Production} \\ & & \text{Plant Investment Costs} \\ & & \text{as of the end of the} \\ & & \text{Initial Period,} \end{array}$$

where: "Base Investment Component" is the per MCF amount determined as provided in Subparagraph 3.8.1(a)(1);

and

(2) "Adjusted O&M Component" is the per MCF amount determined by using the following formula:

$$\begin{array}{lcl} \text{Adjusted} & & \text{PPI for the year prior to} \\ \text{O\&M} & = & \text{the Year Of Production} \\ \text{Component} & = & \text{PPI for the year} \\ & & \text{following the calendar} \\ & & \text{year during which Major} \\ & & \text{Gas Sale occurs,} \end{array}$$

where: "Base O&M Component" is the per MCF amount determined as provided in Subparagraph 3.8.1(a)(2).

(b) Procedure. After the end of the Base Period, Lessees who own an interest (or whose Affiliates own an interest) in a Gas Conditioning Plant shall cause the operator of such plant (or, if he fails to do so, the Lessee who owns (or whose Affiliate owns) the greatest interest in said plant) to calculate the Adjusted Amount yearly using the formula prescribed in Paragraph 3.8.3(a), and to furnish to said Lessees a worksheet showing said amount, the manner in which said amount was calculated and the figures from which each component in said formula was derived. Said Lessees shall notify the Commissioner of the Adjusted Amount

1 not later than the last day of February of the calendar
2 year during which such Adjusted Amount applies.
3

4 3.8.4. Significant Throughput Deviation.
5

6 (a) Phased Plant Startup. If, at Major Gas Sale,
7 the estimate furnished to Lessees pursuant to Paragraph
8 3.8.1(b) of Total Plant Throughput for a particular Gas
9 Conditioning Plant for the first six calendar months after
10 the calendar month during which Major Gas Sale occurs is
11 less than ninety percent (90%) of the estimate (so furnished)
12 of Total Plant Throughput for said plant for the last six
13 calendar months of the calendar year after the calendar
14 year during which Major Gas Sale occurs, then, notwithstanding
15 the definition given in Subsection 3.2.13, the term "Initial
16 Period" shall, for all purposes under this Agreement with
17 respect to said plant, have the meaning set forth in Paragraph
18 3.8.4(c).
19

20 (b) Plant Throughput Shortfall. If, at the end of
21 the calendar year following the calendar year during which
22 Major Gas Sale occurs, a Plant Throughput Shortfall (as
23 hereinafter defined) is deemed to have occurred with respect
24 to a particular Gas Conditioning Plant:
25

26 (1) each Lessee who owns an interest (or whose Affil-
27 iate owns an interest) in said plant shall notify the
28 Commissioner of the existence of such shortfall within
29 thirty days thereafter; and
30

31 (2) the term "Initial Period", for all purposes under
32 this Agreement with respect to said plant, shall have

1 the meaning set forth in Paragraph 3.8.4(c), except
2 that, in such event, the previously calculated "Initial
3 Amount" shall not be recalculated and shall continue
4 to be used as the Calculated Conditioning Cost for
5 that plant with respect to Royalty Gas measured for
6 royalty purposes prior to the end of the calendar month
7 during which the Commissioner is notified of the Base
8 Amount for that plant pursuant to Paragraph 3.8.2(b).
9

10 As used in this Paragraph 3.8.4(b), a "Plant Throughput
11 Shortfall" shall be deemed to have occurred with respect to
12 a particular Gas Conditioning Plant if Total Plant Throughput
13 for said plant for the period beginning at 12:01 A.M. on
14 the first day of the calendar month following the calendar
15 month during which Major Gas Sale occurs and ending at the
16 end of the calendar year following the calendar year during
17 which Major Gas Sale occurs is less than ninety percent (90%)
18 of the estimate furnished to Lessees pursuant to Paragraph
19 3.8.1(b) of Total Plant Throughput for that same plant and
20 period.
21

22 (c) Initial Period Redefined. In those instances
23 specified in Paragraphs 3.8.4(a) and (b), the term "Initial
24 Period" shall mean the period beginning at 12:01 A.M. on
25 the first day of January of the second calendar year following
26 the calendar year during which Major Gas Sale occurs and
27 ending at the end of said second calendar year.
28

29 3.8.5 Accounting Procedure. For the purpose of deter-
30 mining Investments (as defined in Subsection 3.2.17) and
31 Plant O&M Costs (as defined in Subparagraph 3.8.1(a)(2)), all
32 expenditures, both direct and indirect (including overhead),

1 shall be accounted for in accordance with the Accounting Pro-
2 cedure attached as Exhibit I to the Unit Operating Agreement;
3 provided, however, that if a particular Gas Conditioning
4 Plant is not Unit Equipment governed by said Exhibit I,
5 or if expenditures with respect thereto are not accounted
6 for by the plant owners in accordance with said Exhibit
7 I, then, for the purpose of this Agreement, such expenditures
8 shall be accounted for in accordance with the accounting
9 procedure established for that plant; and provided further
10 that neither Investments nor Plant O&M Costs shall include
11 either of the following types of expenditures: (i) oil
12 and gas lease rentals or royalties paid to the State; (ii)
13 legal expenses incurred by any person in connection with
14 litigation or claims with respect to which the State is an
15 adverse party. Each Lessee who owns an interest (or whose
16 Affiliate owns an interest) in a Gas Conditioning Plant shall
17 use its best efforts to provide for an accounting procedure
18 for expenditures with respect to said plant not substantially
19 different from the Accounting Procedure attached as Exhibit
20 I to the Unit Operating Agreement, modified as hereinabove
21 provided.
22

23 3.9 Characterization of Non-Unit Plants. As used
24 in this Article and the Exhibits to this Agreement:
25

26 3.9.1 Divided Plant shall mean a Non-Unit Plant that is
27 owned by more than one owner if: (i) gas may be tendered for
28 Conditioning to any one of the several owners and (ii) the
29 owner to whom particular gas is tendered for Conditioning
30 establishes, independently of the other owners of said plant,
31 the charge which shall be paid for the Conditioning of such
32 gas (or, if such plant is a Regulated Plant, said charge is

1 regulated or established individually with respect to each
2 such owner).

3
4 3.9.2 Majority Owned Plant shall mean a Non-Unit Plant
5 in which Lessees (or Affiliates thereof, or any combination
6 of Lessees and their Affiliates) own a majority interest.

7
8 3.9.3 Minority Owned Plant shall mean a Non-Unit Plant
9 that is not a Majority Owned Plant.

10
11 3.9.4 Regulated Plant shall mean a Non-Unit Plant
12 that Conditions gas produced from the Unit Area for a charge
13 established or regulated by governmental authority.

14
15 3.9.5 Adjectives. The term "Undivided" refers to a
16 Non-Unit Plant that is not a Divided Plant. The term "Unregu-
17 lated" refers to a Non-Unit Plant that is not a Regulated
18 Plant.

19
20 3.10 Settled Downstream RIK Gas Issue. As used here-
21 in, the term "Settled Downstream RIK Gas Issue" shall mean the
22 issue of whether and, if so, the extent to which and for what
23 price, any Lessee is required to condition or otherwise treat all
24 or any portion of the gas produced from the Unit Area and taken
25 by the State as royalty "in kind." In full and final settlement
26 of the respective claims and contentions of the State and each
27 of the Lessees with respect to the Settled Downstream RIK Gas
28 Issue, the State and each of the Lessees agree that:

29
30 3.10.1 Unregulated Divided and Unregulated Majority
31 Owned Plants. Each Lessee who owns an interest (or whose
32 Affiliate owns an interest) in an Unregulated Divided Plant

1 or an Unregulated Majority Owned Plant shall, if so requested
2 by the State, Condition or cause to be Conditioned in said
3 plant, during a particular calendar month, the portion of
4 the RIK Gas taken as royalty from said Lessee having a volume
5 equal to the lesser of:

6
7 (i) the volume (measured at the inlet of said plant
8 and expressed in MCF) of RIK Gas taken as royalty from
9 said Lessee and tendered by the State (or, if all or
10 any portion of the rights of the State under this Section
11 3.10 have been assigned in accordance with this Section
12 3.10 to one or more persons (hereinafter, "Assignees"),
13 the aggregate volume of such RIK Gas tendered by the
14 State and all of the Assignees) during that month for
15 Conditioning in said plant; or

16
17 (ii) the volume equal to the product of (A) Total Plant
18 Throughput for that month, multiplied by (B) said Lessee's
19 percentage of ownership in said Gas Conditioning Plant
20 (or, if an Affiliate of said Lessee owns an interest
21 in said plant, the aggregate percentage owned by said
22 Lessee and all of its Affiliates), multiplied by (C)
23 twelve and one-half percent (12-1/2%), multiplied by
24 (D) the percentage of Royalty Gas for that month which
25 the State has taken "in kind" during that month;

26
27 for which Conditioning the State, for each MCF (measured
28 at the inlet of said plant) of said RIK Gas tendered by
29 the State for Conditioning in said plant pursuant to this
30 Subsection 3.10.1, and each Assignee, for each MCF (measured
31 at the inlet of said plant) of said RIK Gas so tendered
32 by said Assignee, shall pay to said Lessee a Conditioning

1 charge equal to the Calculated Conditioning Cost determined
2 for said plant and gas in accordance with Section 3.8, plus
3 any amount due to said Lessee with respect to said gas pursuant
4 to Paragraph 3.13.2(b) or Paragraph 3.14.2(b), as applicable;
5 provided, however, that if, prior to said month, the State
6 has elected to abandon the Calculated Conditioning Cost with
7 respect to said Lessee and plant in accordance with the pro-
8 visions of Section 3.12, then this Subsection 3.10.1 shall
9 be inapplicable to, and no obligation under this Subsection
10 3.10.1 to the State or any Assignee shall arise on the part
11 of, said Lessee with respect to said plant.
12

13 3.10.2 Regulated Plants. Each Lessee who owns an
14 interest (or whose Affiliate owns an interest) in a Regulated
15 Plant shall, if so requested by the State, Condition or
16 cause to be Conditioned in said plant, during a particular
17 calendar month, the portion of the RIK Gas taken as royalty
18 from said Lessee having a volume equal to the lesser of:
19

20 (i) the volume (measured at the inlet of said plant
21 and expressed in MCF) of RIK Gas taken as royalty from
22 said Lessee and tendered by the State (or, if all or
23 any portion of the rights of the State under this Section
24 3.10 have been assigned in accordance with this Section
25 3.10 to one or more Assignees, the aggregate volume
26 of such RIK Gas tendered by the State and all of the
27 Assignees) during that month for Conditioning in said
28 plant; or
29

30 (ii) the volume equal to the product of (A) Total Plant
31 Throughput for that month, multiplied by (B) said Lessee's
32 percentage of ownership in said Gas Conditioning Plant

1 (or, if an Affiliate of said Lessee owns an interest
2 in said plant, the aggregate percentage owned by said
3 Lessee and all of its Affiliates), multiplied by (C)
4 twelve and one-half percent (12-1/2%), multiplied by
5 (D) the percentage of Royalty Gas for that month which
6 the State has taken "in kind" during that month;
7

8 for which Conditioning the State, for each MCF (measured
9 at the inlet of said plant) of said RIK Gas tendered by
10 the State for Conditioning in said plant pursuant to this
11 Subsection 3.10.2, and each Assignee, for each MCF (mea-
12 sured at the inlet of said plant) of said RIK Gas so ten-
13 dered by said Assignee, shall pay to said Lessee a Condi-
14 tioning charge equal to the applicable tariff rate or charge
15 (per MCF measured at the inlet of said plant) established
16 for such Conditioning (or, if the applicable tariff rate
17 or charge encompasses services in addition to Conditioning,
18 the portion of such rate or charge attributable to such
19 Conditioning) (it being understood and agreed that the term
20 "applicable tariff rate or charge" as used in this Subsection
21 shall mean the entire tariff rate or charge payable for
22 such Conditioning).
23

24 3.10.3 Conditioning Contract. Prior to tendering
25 RIK Gas for Conditioning pursuant to Subsection 3.10.1 or
26 Subsection 3.10.2 to a Lessee who owns an interest (or whose
27 Affiliate owns an interest) in a Gas Conditioning Plant,
28 the State (or, with respect to rights under this Section
29 3.10 assigned by the State, the Assignee of such rights)
30 shall have entered into a conditioning contract with the
31 owners of said plant (or, in the case of a Divided Plant,
32 with said Lessee or its Affiliate who owns an interest in

1 said plant), which contract shall set forth the terms and
2 conditions (not inconsistent with those provided for herein)
3 on which such gas shall be Conditioned. The entry by the
4 State (or Assignee, as the case may be) into such a contract
5 and the performance by the State (or Assignee) of all of
6 its obligations thereunder shall be conditions precedent
7 to the obligations of such Lessee under Subsection 3.10.1
8 and Subsection 3.10.2.

9
10 3.10.4 Assignment by State. The State may assign
11 its rights under this Section 3.10 with respect to RIK Gas
12 taken from a particular Lessee during a particular month
13 to any person purchasing all or any portion of said RIK
14 Gas from the State if said gas is to be delivered to such
15 person by the State at the point of taking provided for
16 in Section 3.3 hereof; provided, however, that the volume
17 of said RIK Gas which a particular Assignee may require
18 said Lessee to Condition in a particular Gas Conditioning
19 Plant pursuant to Subsection 3.10.1 or Subsection 3.10.2,
20 as applicable, shall in no event exceed the volume determined
21 by multiplying (i) the volume of RIK Gas taken as royalty
22 from said Lessee during said month that the State and all
23 Assignees may require said Lessee to Condition in said plant
24 pursuant to said Subsection, by (ii) the ratio determined
25 by dividing (A) the volume of RIK Gas taken as royalty from
26 said Lessee during said month and purchased from the State
27 by said Assignee, by (B) the total volume of RIK Gas taken
28 as royalty from said Lessee during said month; and provided
29 further, that no such assignment shall be effective as to
30 or binding upon any Lessee unless and until: (1) there shall
31 have been delivered to said Lessee the instrument (or a
32 duplicate original thereof) by which such assignment is

1 made, duly executed and acknowledged by the State and the
2 Assignee, obligating said Assignee, for the benefit of said
3 Lessee, to pay the respective share of the charges due to
4 said Lessee for Conditioning RIK Gas sold by the State to
5 said Assignee (including any amount then or thereafter due
6 to said Lessee pursuant to Section 3.13) and to keep and
7 perform and be bound by each and all of the other covenants,
8 conditions, restrictions and other provisions hereof on the
9 part of the State with respect to said RIK Gas, which assign-
10 ment shall expressly provide that it is made subject to all
11 of such covenants, conditions, restrictions and provisions;
12 and (2) said Assignee has entered into a conditioning contract
13 with the owners of the Gas Conditioning Plant in which said
14 Lessee (or its Affiliate) owns an interest setting forth the
15 terms and conditions on which such gas shall be Conditioned
16 in said plant. No Assignee may further assign any rights under
17 this Agreement without, in each instance, the prior written
18 consent of each Lessee who owns (or whose Affiliate owns)
19 an interest in a Gas Conditioning Plant, and any assignment
20 made without such prior consent shall be null and void. No
21 assignment by the State pursuant to this Subsection 3.10.4
22 shall affect or reduce any obligation of the State or right
23 of any Lessee hereunder, and all obligations of the State
24 hereunder shall continue in full force and effect as the
25 obligations of a principal, and not of a guarantor or surety,
26 to the same extent as though no assignment had been made
27 (it being expressly understood and agreed that the foregoing
28 shall not obligate the State to pay, and the State shall
29 not be liable hereunder for, any costs or charges incurred
30 by an Assignee for Conditioning gas in a Non-Unit Plant).
31 Nothing in this Subsection 3.10.4 shall be construed as
32 permitting the State to assign its right to abandon the

1 Calculated Conditioning Cost with respect to any Lessee
2 and Gas Conditioning Plant. Except as permitted by this
3 Subsection 3.10.4, the State shall not assign, in whole
4 or in part, any of its rights under this Agreement, and
5 all assignments of rights under this Agreement other than
6 those permitted by and made in accordance with this Subsec-
7 tion 3.10.4 shall be null and void.

8
9 3.10.5 No Other Obligation. Except as otherwise ex-
10 pressly provided in this Section 3.10, no Lessee shall be
11 obligated to Condition or otherwise treat Royalty Gas;
12 provided, however, that this Subsection 3.10.5 shall not
13 be construed as a waiver by the State of any of its rights
14 under federal law.

15
16 3.11 Settled Downstream RIV Gas Issue. As used here-
17 in, the term "Settled Downstream RIV Gas Issue" shall mean the
18 issue of how, in determining the Intermediate Value of RIV Gas
19 delivered during a particular calendar month to a particular
20 Non-Unit Plant (from which Intermediate Value the Upstream Cost
21 Allowance may be deducted by a Lessee, pursuant to Section 3.5,
22 in making settlement for such RIV Gas), a Lessee is to compute
23 the value at the inlet of said plant of the RIV Gas portion of
24 said Lessee's Inlet Gas for said plant and month (as a function
25 of the value of the tailgate residue gas and other products and
26 byproducts yielded from said Inlet Gas) in those instances in
27 which said Lessee Bears Conditioning Costs with respect to the
28 RIV Gas portion of said Lessee's Inlet Gas for said plant and
29 month. For purposes of this Section 3.11 and Section 3.13:

30
31 (a) with respect to a particular Lessee, Gas Condi-
32 tioning Plant and calendar month, the term "Inlet Gas" shall

mean all gas, other than RIK Gas, that is (i) produced from the Unit Area, (ii) allocated to said Lessee, and (iii) delivered to said plant during said month; and

(b) a particular Lessee "Bears Conditioning Costs" with respect to the RIV Gas portion of said Lessee's Inlet Gas for a particular Non-Unit Plant and month if and only if said Lessee either (i) owns an interest in said plant, or (ii) incurs (with or without right of reimbursement) any of the cost of Conditioning said Inlet Gas in said plant other than the cost of disposing of any of the products or byproducts yielded from said gas.

In full and final settlement of the respective claims and contentions of the State and each of the Lessees with respect to the Settled Downstream RIV Gas Issue, the State and each of the Lessees agree that:

3.11.1 Intermediate Value of Certain RIV Gas. In those instances in which a particular Lessee Bears Conditioning Costs with respect to the RIV Gas portion of said Lessee's Inlet Gas for a particular Non-Unit Plant and particular calendar month, for the purpose of determining the Intermediate Value of each MCF of said RIV Gas, the value at the inlet of said plant of each MCF of said RIV Gas shall be the amount determined by using the following formula:

$$\begin{array}{lcl} \text{Inlet Value} & = & \frac{\text{Lessee's Net Outlet Value}}{\text{Lessee's Net Inlet Volume}} - \text{Downstream Conditioning Allowance per MCF,} \\ \text{per MCF} & & \end{array}$$

1 where:

2
3 (1) "Lessee's Net Outlet Value" is the total value
4 of the tailgate residue gas and other products and
5 byproducts yielded from all of said Lessee's Inlet
6 Gas for said plant and month other than any portion
7 of said tailgate residue gas and other products and
8 byproducts which is Used In Unit Operations (which
9 total value shall be determined at the outlet of said
10 plant; or, with respect to any portion of said tailgate
11 residue gas and other products and byproducts yielded
12 from said Inlet Gas which is contributed in kind to
13 said plant for use as fuel in said plant, determined
14 at the point of consumption); and
15

16 (2) "Lessee's Net Inlet Volume" is the total volume
17 (measured at the inlet of said plant) of said Lessee's
18 Inlet Gas for said plant and month minus the volume
19 determined by multiplying (i) the total volume (meas-
20 ured at the outlet of said plant and expressed in MCF)
21 of any portion of the tailgate residue gas and other
22 products and byproducts yielded from said Inlet Gas
23 which is Used In Unit Operations (hereinafter, "Lessee's
24 Returned Gas"), by (ii) the ratio determined by dividing
25 (A) the volume weighted average Heating Value (measured
26 at the outlet of said plant) of Lessee's Returned Gas,
27 by (B) the volume weighted average Heating Value (measured
28 at the inlet of said plant) of said Inlet Gas; and
29

30 (3) "Downstream Conditioning Allowance" is the per
31 MCF amount determined for said plant and said RIV Gas
32 in accordance with Subsection 3.11.2.

1 3.11.2 Downstream Conditioning Allowance. For the
2 purposes of this Section 3.11, the Downstream Conditioning
3 Allowance for RIV Gas shall be determined as follows:
4

5 (a) Lessee-Owner of Regulated Plant. With respect
6 to RIV Gas for which a particular Lessee who owns an interest
7 (or whose Affiliate owns an interest) in a Regulated Plant
8 makes settlement, the Downstream Conditioning Allowance
9 for said plant with respect to each MCF of said RIV Gas
10 measured during a particular calendar month at the inlet
11 of said plant shall be equal to the applicable tariff rate
12 or charge per MCF (measured at the inlet of said plant)
13 established for Conditioning said Lessee's Inlet Gas in
14 said plant during said month (or if the applicable tariff
15 rate or charge encompasses services in addition to such
16 Conditioning, the portion of said rate or charge attributable
17 to such Conditioning). If said Regulated Plant is a Divided
18 Plant, the "applicable tariff rate or charge" shall be the
19 tariff rate or charge established with respect to gas tendered
20 during that month to said Lessee for such Conditioning (or
21 if said Lessee does not own an interest in said plant, so
22 tendered to said Lessee's Affiliate who owns an interest
23 in said plant).
24

25 (b) Lessee-Owner of Unregulated Majority Owned Plant
26 or Unregulated Divided Plant. With respect to RIV Gas for
27 which a particular Lessee who owns an interest (or whose
28 Affiliate owns an interest) in an Unregulated Majority Owned
29 Plant or in an Unregulated Divided Plant makes settlement,
30 the Downstream Conditioning Allowance for said plant with
31 respect to each MCF of said RIV Gas measured during a
32

1 particular calendar month at the inlet of said plant shall
2 be determined as follows: .
3

4 (1) With respect to the portion of said RIV Gas having
5 a volume equal to the lesser of:
6

7 (A) the total volume (expressed in MCF) of said
8 RIV Gas measured during said calendar month at
9 the inlet of said plant; or
10

11 (B) the volume (expressed in MCF) equal to the
12 product of (i) Total Plant Throughput for that
13 month, multiplied by (ii) said Lessee's percentage
14 of ownership in said Gas Conditioning Plant (or,
15 if an Affiliate of said Lessee owns an interest
16 in said plant, the aggregate percentage owned
17 by said Lessee and all of its Affiliates), multi-
18 plied by (iii) twelve and one-half percent (12-1/2%),
19 multiplied by (iv) the percentage of Royalty Gas
20 for that month which the State did not take "in
21 kind" during that month;
22

23 the Downstream Conditioning Allowance (per MCF of said
24 RIV Gas measured at the inlet of said plant) shall
25 be equal to the Calculated Conditioning Cost (per MCF
26 measured at the inlet of said plant) determined for
27 said plant and gas in accordance with Section 3.8;
28 provided, however, that if, prior to said month, the
29 State has elected to abandon the Calculated Conditioning
30 Cost with respect to said Lessee and plant in accordance
31 with the provisions of Section 3.12, then the Calculated
32 Conditioning Cost shall not apply with respect to any

of said RIV Gas and the Downstream Conditioning Allowance with respect to said RIV Gas shall be determined in accordance with Subparagraph 3.11.2(b) (2).

(2) With respect to the remainder, if any, of said RIV Gas (or if, prior to said month, the State has elected to abandon the Calculated Conditioning Cost with respect to said Lessee and plant in accordance with the provisions of Section 3.12, then with respect to all of said RIV Gas), the Downstream Conditioning Allowance (per MCF measured at the inlet of said plant) shall be equal to:

(A) if said plant is an Undivided Gas Conditioning Plant, the tariff rate or charge (per MCF measured at the inlet of said plant) established by the owners of said plant for Conditioning said Lessee's Inlet Gas in said plant during said month; or, if no such tariff rate or charge is established, the volume weighted average tariff rate or charge (per MCF measured at the inlet of said plant) paid for Conditioning in said plant during said month gas of the same kind and quality as said Lessee's Inlet Gas.

(B) if said plant is a Divided Plant, the tariff rate or charge (per MCF measured at the inlet of said plant) established by said Lessee (or, if said Lessee does not own an interest in said plant, established by said Lessee's Affiliate who owns an interest in said plant) for Conditioning in said plant during said month gas of

1 the same kind and quality as said Lessee's Inlet Gas
2 for said plant and month; or, if no such tariff rate
3 or charge is so established, the volume weighted
4 average tariff rate or charge (per MCF measured
5 at the inlet of said plant) paid for such Condition-
6 ing with respect to gas tendered during that month
7 to said Lessee (or, if said Lessee does not own
8 an interest in said plant, so tendered to said
9 Lessee's Affiliate) for Conditioning in said plant.

10
11 (c) Lessee-Owner of Unregulated, Undivided Minority
12 Owned Plant. With respect to RIV Gas for which a particular
13 Lessee who owns an interest (or whose Affiliate owns an
14 interest) in an Unregulated Undivided Minority Owned Plant
15 makes settlement, the Downstream Conditioning Allowance
16 for said plant with respect to each MCF of said RIV Gas
17 measured during a particular calendar month at the inlet
18 of said plant shall be equal to the tariff rate or charge
19 (per MCF measured at the inlet of said plant) established
20 by the owners of said plant for Conditioning said Lessee's
21 Inlet Gas in said plant during said month; or, if no such
22 tariff rate or charge is established, the volume weighted
23 average tariff rate or charge (per MCF measured at the inlet
24 of said plant) paid for such Conditioning occurring in said
25 plant during said month.

26
27 (d) Non-Owner Lessee. With respect to any RIV Gas
28 for which a particular Lessee makes settlement, which gas
29 is delivered during a particular calendar month to a Gas
30 Conditioning Plant in which neither said Lessee nor any
31 Affiliate of said Lessee owns an interest, the Downstream
32 Conditioning Allowance for said plant with respect to each

1 MCF (measured at the inlet of said plant) of said RIV Gas
2 shall be equal to the sum of (i) the volume weighted average
3 amount, if any, (per MCF measured at the inlet of said plant)
4 paid to the owners of said plant by said Lessee for Con-
5 ditioning in said plant during said month, plus (ii) the
6 volume weighted average amount, if any, (per MCF measured
7 at the inlet of said plant) paid to the owners of said plant
8 by the purchasers of said RIV Gas for such Conditioning.
9

10 (e) In Kind Charges. As used in this Subsection 3.11.2
11 and in Paragraph 3.13.1(c), the term "tariff rate or charge"
12 (and, with respect to Paragraph 3.11.2(d), the term "amount")
13 shall mean, with respect to particular gas and a particular
14 Gas Conditioning Plant, the sum of (i) the entire monetary
15 amount, if any, established (or, in the case of Paragraph
16 3.11.2(d), paid) for Conditioning said gas in said plant,
17 plus (ii) the value of any gas contributed in kind to said
18 plant as payment, in whole or in part, for such Conditioning,
19 regardless of the form or condition in which such gas is
20 contributed.
21

22 3.12 Election to Abandon Calculated Conditioning Cost.
23 With respect to each Gas Conditioning Plant, the State may elect,
24 for the purpose of Sections 3.10, 3.11 and 3.13, to abandon the
25 Calculated Conditioning Cost with respect to any or all Lessees
26 (regardless of whether the Calculated Conditioning Cost then
27 applies to a particular Gas Conditioning Plant and Lessee with
28 respect to which such election is made) by dispatching written
29 notice of such election to each Lessee affected thereby, such
30 notice to be dispatched with respect to a particular Gas Condition-
31 ing Plant within one hundred fifty days after the end of the
32 Initial Period for said plant. Each such notice shall be

1 dispatched by registered mail, return receipt requested, to
2 the address for such Lessee set forth in the Unit Agreement or
3 at such other address as said Lessee shall hereafter specify
4 for such purpose. Any such election shall be irrevocable. The
5 right of the State to make the election provided for in this
6 Section 3.12 with respect to a particular Gas Conditioning Plant
7 shall expire with respect to all Lessees one hundred fifty days
8 after the end of the Initial Period for said plant and no attempt
9 to make such an election with respect to any Gas Conditioning
10 Plant or Lessee after said one hundred fiftieth day shall be
11 effective for any purpose; provided, however, that if, as of
12 the sixtieth day following the end of the Initial Period for
13 a particular Gas Conditioning Plant in which one or more Lessees
14 (or their Affiliates) then own an interest, the Commissioner
15 has not been notified of the Base Amount for said plant if such
16 notice is required by Paragraph 3.8.2(b), then, with respect
17 to all Lessees, the time within which the State may make such
18 an election with respect to said plant shall be extended through
19 the end of the ninetieth day after the Commissioner is first
20 notified of the Base Amount for said plant. The election rights
21 provided for in this Section 3.12 shall not be assigned by the
22 State and any assignment by the State of all or any portion of
23 said rights shall be null and void.

24
25 3.13 Payment of Initial Amount/Established Amount
26 Differential.

27
28 3.13.1 Definitions. As used in this Section 3.13:

29
30 (a) Bears Conditioning Costs shall, with respect to
31 particular RIV Gas, have the meaning given to it in Section
32 3.11.

1 (b) Differential Amount Per MCF for a particular Lessee,
2 particular Gas Conditioning Plant and particular Royalty
3 Gas shall mean an amount equal to the difference between
4 the Calculated Conditioning Cost for said plant and gas
5 and the Established Amount for said Lessee, plant and gas.
6

7 (c) Established Amount for a particular Lessee, particu-
8 lar Gas Conditioning Plant and particular Royalty Gas shall
9 mean an amount equal to the Base Amount for said plant deter-
10 mined in accordance with Subsection 3.8.2; provided, however,
11 that if the State has made the election provided for in
12 Section 3.12 with respect to a particular Lessee and a partic-
13 ular Gas Conditioning Plant, then, with respect to said
14 Lessee and plant, the term "Established Amount" for Royalty
15 Gas measured for royalty purposes during any calendar month
16 when said plant was an Unregulated Undivided Majority Owned
17 Plant or an Unregulated Divided Plant shall mean an amount
18 equal to:
19

20 (1) if said plant was an Unregulated Undivided Ma-
21 jority Owned Plant during a particular calendar month,
22 the tariff rate or charge (as defined in Paragraph
23 3.11.2(e)) (per MCF measured at the inlet of said plant)
24 established by the owners of said plant for Conditioning
25 said Lessee's Inlet Gas in said plant during said month;
26 or, if no such tariff rate or charge is established,
27 the volume weighted average tariff rate or charge (per
28 MCF measured at the inlet of said plant) paid for Condi-
29 tioning in said plant during said month gas of the
30 same kind and quality as said Lessee's Inlet Gas.
31
32

1 (2) if said plant was an Unregulated Divided Plant
2 during a particular calendar month, the tariff rate
3 or charge (as defined in Paragraph 3.11.2(e)) (per
4 MCF measured at the inlet of said plant) established
5 by said Lessee (or, if said Lessee does not own an
6 interest in said plant, established by said Lessee's
7 Affiliate who owns an interest in said plant) for Condi-
8 tioning in said plant during said month gas of the
9 same kind and quality as said Lessee's Inlet Gas for
10 said plant and month; or, if no such tariff rate or
11 charge is so established, the volume weighted average
12 tariff or charge (per MCF measured at the inlet of
13 said plant) paid for such Conditioning with respect
14 to gas tendered during that month to said Lessee (or,
15 if said Lessee does not own an interest in said plant,
16 so tendered to said Lessee's Affiliate) for Condition-
17 ing in said plant.

18
19 (d) Election Date shall mean, with respect to a par-
20 ticular Lessee and a particular Gas Conditioning Plant,
21 the date on which the State elects to abandon the Calculated
22 Conditioning Cost with respect to said Lessee and plant
23 in accordance with the provisions of Section 3.12; provided,
24 however, that if the State does not so elect, then with
25 respect to said Lessee and plant, "Election Date" shall
26 mean the date on which the State's right so to elect expires
27 under Section 3.12.

28
29 (e) Inlet Gas of a particular Lessee shall, with
30 respect to a particular Non-Unit Plant and a particular
31 calendar month, have the meaning given to it in Section
32 3.11.

3.13.2 Obligation.

(a) Royalty Gas, Unit Plant. With respect to each MCF of Royalty Gas (i) discharged from a particular Unit Plant prior to the end of the calendar month during which the Commissioner is notified of the Base Amount for said plant pursuant to Paragraph 3.8.2(b), and (ii) taken as royalty from a particular Lessee (in the case of RIK Gas) or for which a particular Lessee makes or is obligated to make royalty settlement "in value" (in the case of RIV Gas):

(1) if the Established Amount for said Lessee, plant and gas is less than the Calculated Conditioning Cost for said plant and gas, then said Lessee shall pay the Differential Amount Per MCF for said Lessee, plant and gas to the State within forty-five days after the Commissioner is notified of the Base Amount for said plant pursuant to Paragraph 3.8.2(b).

(2) if the Established Amount for said Lessee, plant and gas is greater than the Calculated Conditioning Cost for said plant and gas, then the State shall pay the Differential Amount Per MCF for said Lessee, plant and gas to said Lessee promptly (within forty-five days, if possible) after the Commissioner is notified of the Base Amount for said plant pursuant to Paragraph 3.8.2(b). Each Lessee whom any payment will be due under this Subparagraph 3.13.2(a)(2) shall invoice the Commissioner for the total amount due to said Lessee within fifteen days after the Commissioner is so notified of said Base Amount.

1 (b) RIK Gas, Non-Unit Plant. With respect to each
2 MCF of RIK Gas that is taken from a particular Lessee as
3 royalty and tendered pursuant to Subsection 3.10.1 for Con-
4 ditioning in a particular Unregulated Undivided Majority
5 Owned Plant or Unregulated Divided Plant prior to the end
6 of the calendar month during which the Election Date occurs
7 with respect to said Lessee and plant:

8
9 (1) if the Established Amount for said Lessee, plant
10 and gas is less than the Calculated Conditioning Cost
11 for said plant and gas, then said Lessee shall pay the
12 Differential Amount Per MCF for said Lessee, plant and
13 gas to the person who tendered said gas for Conditioning
14 in said plant pursuant to Subsection 3.10.1.

15
16 (2) if the Established Amount for said Lessee, plant
17 and gas is greater than the Calculated Conditioning
18 Cost for said plant and gas, then the person who tendered
19 said gas for Conditioning in said plant pursuant to
20 Subsection 3.10.1 shall pay the Differential Amount
21 Per MCF for said Lessee, plant and gas to said Lessee.

22
23 Unless otherwise provided in the contract entered into pursu-
24 ant to Subsection 3.10.3 with respect to the Conditioning
25 of said gas, such payments shall be made on or before the
26 forty-fifth day after the end of the calendar month during
27 which said Election Date occurs.

28
29 (c) RIV Gas, Non-Unit Plant. With respect to each
30 MCF of RIV Gas (i) that is delivered to a particular Unreg-
31 ulated Undivided Majority Owned Plant or Unregulated Divided
32 Plant prior to the end of the calendar month during which

1 the Election Date occurs with respect to said Lessee and
2 plant, and (ii) for which a particular Lessee both Bears
3 Conditioning Costs and makes (or is obligated to make) royalty
4 settlement "in value":
5

6 (1) if the Established Amount for said Lessee, plant
7 and gas is less than the Calculated Conditioning Cost
8 for said plant and gas, then said Lessee shall pay
9 the Differential Amount Per MCF for said Lessee, plant
10 and gas to the State within forty-five days after the
11 end of the calendar month during which said Election
12 Date occurs.
13

14 (2) if the Established Amount for said Lessee, plant
15 and gas is greater than the Calculated Conditioning
16 Cost for said plant and gas, then the State shall pay
17 the Differential Amount Per MCF for said Lessee, plant
18 and gas to said Lessee promptly (within forty-five
19 days, if possible) after the end of the calendar month
20 during which said Election Date occurs. Each Lessee
21 to whom any payment will be due under this Subparagraph
22 3.13.2(c) (2) shall invoice the Commissioner for the
23 total amount due to said Lessee within fifteen days
24 after the end of the calendar month during which said
25 Election Date occurs.
26

27 3.14 Payment of PPI Adjustment Differential.
28

29 3.14.1 All Royalty Gas. If, in accordance with Section
30 1.5, either the Upstream Cost Allowance or, with respect
31 to a particular Non-Unit Plant, the Downstream Conditioning
32 Allowance, or both such allowances, for particular Royalty

1 Gas are calculated using the Interim PPI for the year prior
2 to the Year Of Production for said gas and, as a result,
3 any Lessee:
4

5 (i) receives an amount pursuant to Section 3.4 with
6 respect to said gas, if said gas is RIK Gas, or
7

8 (ii) deducts an amount pursuant to Section 3.5, or
9 Subsection 3.11.1, or both, with respect to said gas,
10 if said gas is RIV Gas
11

12 (such amount so received, if RIK Gas, or deducted, if RIV
13 Gas, being referred to in this Subsection 3.14.1 as the
14 "Interim Amount" with respect to said gas), which amount
15 is greater than or less than the amount that would have
16 been so deducted or received by said Lessee with respect
17 to said gas had said allowance been calculated using the
18 PPI for said year as finally determined and reported (such
19 amount calculated using said finally determined PPI being
20 referred to in this Subsection as the "Redetermined Amount"
21 with respect to said gas), then:
22

23 (a) Refund to State. If the Interim Amount received
24 or deducted with respect to said gas is greater than the
25 Redetermined Amount with respect to said gas, said Lessee
26 shall pay to the State, within thirty days after the PPI
27 for said year is finally determined and reported, an amount
28 equal to the difference between said Interim Amount and
29 said Redetermined Amount.
30

31 (b) Payment of Balances Due Lessee. If the Interim
32 Amount deducted or received with respect to said gas is

1 less than the Redetermined Amount with respect to said gas,
2 the State shall pay to said Lessee an amount equal to the
3 difference between said Redetermined Amount and said Interim
4 Amount promptly (within thirty days, if possible) after
5 receipt by the State of said Lessee's invoice therefor.
6

7 3.14.2 RIK Gas Tendered Under § 3.10.1. If, in accor-
8 dance with Section 1.5, the Calculated Conditioning Cost
9 for a particular Non-Unit Plant and particular RIK Gas
10 tendered for Conditioning in said plant pursuant to Sub-
11 section 3.10.1 is calculated using the Interim PPI for the
12 year prior to the Year Of Production for said gas and, as
13 a result, any Lessee
14

15 (i) receives any amount pursuant to Subsection 3.10.1
16 with respect to said gas (hereinafter, the "Interim
17 Amount Received" with respect to said gas), which amount
18 is greater than the amount that would have been so
19 received by said Lessee, or
20

21 (ii) charges an amount pursuant to Subsection 3.10.1
22 with respect to said gas (hereinafter, the "Interim
23 Amount Charged" with respect to said gas), which amount
24 is less than the amount that would have been so charged
25 by said Lessee,
26

27 if said Calculated Conditioning Cost had been calculated
28 using the PPI for said year as finally determined and reported
29 (such amount calculated using the PPI for said year as finally
30 determined and reported being referred to in this Subsection
31 3.14.2 as the "Redetermined Amount" with respect to said
32 gas), then:

1 (a) Refund to Person Tendering Gas. If the Interim
2 Amount Received with respect to said gas is greater than
3 the Redetermined Amount with respect to said gas, said Lessee
4 shall pay to the person who tendered said gas for Conditioning
5 in said plant pursuant to Subsection 3.10.1, within thirty
6 days after the PPI for said year is finally determined and
7 reported, an amount equal to the difference between said
8 Interim Amount Received and said Redetermined Amount.
9

10 (b) Payment by Person Tendering Gas. If the Interim
11 Amount Charged with respect to said gas is less than the
12 Redetermined Amount with respect to said gas, the person
13 who tendered said gas for Conditioning in said plant pursuant
14 to Subsection 3.10.1 shall pay to said Lessee, within thirty
15 days after the PPI for said year is finally determined and
16 reported, an amount equal to the difference between said
17 Interim Amount Charged and said Redetermined Amount.
18

19 3.15 Settled Returned Gas Royalty Issue. As used
20 herein, the term "Settled Returned Gas Royalty Issue" shall mean
21 the issue of whether any royalty obligation accrues with respect
22 to gas that is (i) produced from the Unit Area, (ii) delivered
23 to a Non-Unit Plant, and (iii) thereafter Used In Unit Operations.
24 In full and final settlement of the respective claims and conten-
25 tions of the State and each of the Lessees with respect to the
26 Settled Returned Gas Royalty Issue, the State and each of the
27 Lessees agree that:
28

29 3.15.1 Returned Gas Used In Unit Operations. No royalty
30 obligation, "in kind" or "in value," shall accrue with respect
31 to any gas that is (i) produced from the Unit Area, (ii)
32 delivered to a Gas Conditioning Plant (whether or not such

1 plant is Unit Equipment), and (iii) thereafter Used In Unit
2 Operations, regardless of whether or not said Gas Conditioning
3 Plant is located within the boundaries of the Unit Area
4 (it being expressly understood and agreed that no royalty
5 obligation shall accrue with respect to gas produced from
6 the Unit Area, allocated to a particular Lessee and sold
7 by said Lessee at or upstream of the inlet of said plant
8 if and to the extent that said previously sold gas or an
9 equivalent amount of gas produced from the Unit Area is
10 subsequently purchased by said Lessee and contributed in
11 kind by said Lessee to be Used In Unit Operations). As
12 used herein, gas which is "Used In Unit Operations" shall
13 mean gas that is used, unavoidably lost, stored or consumed
14 in Unit Operations or otherwise exempt from royalty (includ-
15 ing, without limiting the generality of the foregoing, gas
16 that is used or consumed in Unit Equipment and gas that
17 is injected into any formation underlying the Unit Area),
18 regardless of the form or condition in which such gas is
19 Used In Unit Operations.

20
21 3.15.2 Calculation Re Non-Unit Plant. The volume of
22 gas that is (i) produced from the Unit Area, (ii) delivered
23 during a particular period to a Non-Unit Plant, and (iii)
24 thereafter returned for the account of a particular Lessee
25 to be Used In Unit Operations (hereinafter, "Lessee's Returned
26 Gas"), with respect to which gas no royalty obligation, "in
27 kind" or "in value," shall accrue, shall be determined by
28 multiplying (1) the volume (measured at the outlet of said
29 plant and expressed in MCF) of Lessee's Returned Gas, by
30 (2) the ratio determined by dividing (A) the volume weighted
31 average Heating Value (measured at the outlet of said plant)
32 of Lessee's Returned Gas, by (B) the volume weighted average

1 Heating Value (measured at the inlet of said plant) of all
2 gas produced from the Unit Area, allocated to said Lessee
3 and delivered to said plant during that period.
4

5 3.15.3 Proviso. Nothing in this Section 3.15 shall
6 be construed as limiting the royalty exemptions set forth
7 in Article 7 of the Unit Agreement and Paragraph 11 of the
8 Leases, or either of them.
9

10 3.16 Plant Design Information. Each Lessee who owns
11 an interest in a Gas Conditioning Plant shall use its best efforts
12 to inform the Commissioner of significant developments relating
13 to the engineering design and the physical aspects of construction
14 of that Gas Conditioning Plant during the period prior to Major
15 Gas Sale; provided, however, that no Lessee shall be required
16 to furnish any data or information which said Lessee is required
17 by contract or by law to keep confidential (hereinafter, "Trade
18 Secrets"). If the State so requests, such Lessee (or Lessee's
19 designated representative) shall, upon reasonable notice, meet
20 informally with the Commissioner (or a designated member of his
21 professional staff) to discuss such matters, other than Trade
22 Secrets. Any such meeting shall be held at such place as the
23 Commissioner and such Lessee shall mutually agree.
24

25 3.17 Examples. Exhibits D, E and F hereto illustrate
26 the application of portions of this Article 3 in certain instances.
27 In the event of any conflict between the provisions of Article
28 3 and said Exhibits, the text of Article 3 shall control.
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1 a particular Lessee or Lessees without the consent of any Lessee
2 not affected by said modification, amendment or supplement.

3
4 4.3 Primary Liability of State. From time to time,
5 the State may arrange for one or more purchasers of RIK Oil or
6 RIK Gas to make payment to the respective Lessees of all or any
7 portion of the sums for which the State is liable hereunder.
8 Neither the agreement or acquiescence by any Lessee in such an
9 arrangement nor the acceptance by any Lessee of payment from any
10 such purchaser shall relieve the State of its primary liability
11 for the satisfaction of the State's obligations hereunder. The
12 State shall in all cases remain primarily liable for the satis-
13 faction of all of its obligations under this Agreement.

14
15 4.4 Payments.

16
17 4.4.1 Invoices. If the State takes Royalty Oil or
18 Royalty Gas "in kind" during a particular month, each Lessee
19 shall send, or cause to be sent, to the State, on or before
20 the last day of the following month, an invoice for (i)
21 the Field Cost Allowance with respect to such oil taken
22 from said Lessee, (ii) the Upstream Cost Allowance with
23 respect to such gas taken from said Lessee, and (iii) the
24 Conditioning charge due to said Lessee with respect to any
25 such gas Conditioned for the State pursuant to Subsection
26 3.10.1 or Subsection 3.10.2 in a Gas Conditioning Plant
27 in which said Lessee (or an Affiliate of said Lessee) has
28 an ownership interest. (Amounts due with respect to Royalty
29 Gas taken from a Lessee as royalty "in kind" prior to the
30 Effective Date shall be invoiced within sixty days after
31 the Effective Date.) The State shall pay, or cause to be
32 paid, each invoice rendered for such allowances and charges

1 promptly (within thirty days, if possible) from the date
2 of such invoice. [Procedures for payment of amounts due
3 with respect to RIK Oil taken by the State prior to the
4 Effective Date and with respect to RIV Oil for which royalty
5 settlement has been made prior to the Effective Date are
6 set forth in Section 2.8.]
7

8 4.4.2 Failure to Pay. If the State fails to pay,
9 or to cause to be paid, to a Lessee, within thirty days
10 of the date of the invoice therefor, any amount which the
11 State is obligated to pay to such Lessee under this Agreement,
12 such Lessee may:
13

14 (a) offset all or any portion thereof remaining unpaid
15 at the time of such offset against any obligation then or
16 thereafter due from said Lessee to the State under the Leases,
17 the Unit Agreement, this Agreement, or any one or more of
18 them; provided, however, that, prior to any such offset,
19 the Lessee shall give the State fifteen days' written notice
20 specifying the amount unpaid and the amount and nature of
21 the particular obligation against which the Lessee intends
22 to offset; or
23

24 (b) demand that the State cause such unpaid amount
25 to be paid by its purchasers of RIK Oil or RIK Gas (here-
26 inafter, individually and collectively, "RIK Hydrocarbons"),
27 from sums then or thereafter otherwise due to the State for
28 RIK Hydrocarbons, in accordance with the following provisions
29 of this Paragraph 4.4.2(b):
30

31 (1) the State, upon receiving such a demand from a
32 Lessee, shall direct each purchaser to whom it has

1 sold any RIK Hydrocarbons with respect to which all or
2 any portion of said unpaid amount accrued to pay to
3 said Lessee, as the State's nominee payee, the amount
4 next due to the State from said purchaser for RIK Hydro-
5 carbons sold by the State to said purchaser (or so
6 much thereof as is necessary to satisfy the portion
7 of the State's unpaid obligation to said Lessee which
8 accrued with respect to RIK Hydrocarbons theretofore
9 sold by the State to said purchaser), and the State
10 shall direct each such purchaser to continue to make
11 payment for RIK Hydrocarbons in this manner until the
12 portion of the State's obligation to said Lessee which
13 accrued with respect to said RIK Hydrocarbons is paid
14 in full; and
15

16 (2) if, for any reason whatever, the State's obliga-
17 tion to said Lessee with respect to RIK Hydrocarbons
18 sold to said purchaser is not so satisfied by said
19 purchaser within ninety days after receipt by the State
20 of the demand first described in this Paragraph 4.4.2(b),
21 the State, upon receipt of a further demand from said
22 Lessee, shall (unless prohibited by contractual obliga-
23 tion binding upon the State both on the date first
24 set forth above and at the time such demand is made)
25 direct such other purchasers of RIK Hydrocarbons as
26 the State shall elect to pay to said Lessee, as the
27 State's nominee payee, such amounts, then or thereafter
28 due to the State for RIK Hydrocarbons sold to such
29 other purchasers, as are necessary to satisfy promptly
30 the State's unpaid obligation to said Lessee; or
31
32

1 (c) offset a portion of said unpaid obligation pur-
2 suant to Paragraph 4.4.2(a) and demand payment of a portion
3 thereof pursuant to Paragraph 4.4.2(b); and
4

5 (d) in addition to the foregoing, or, at the option
6 of said Lessee, in lieu thereof, pursue any and all other
7 remedies which said Lessee may have against the State or
8 against any other person for failure to make timely payaent
9 of any amount due to said Lessee under this Agreement (it
10 being understood and agreed that no action taken by said
11 Lessee in accordance with the provisions of this Section
12 4.4 shall be construed or treated for any purposes as a
13 waiver of or election not to pursue any other remedies which
14 said Lessee may have against the State or any other person
15 for failure to make timely payment).
16

17 4.5 Audits. Upon reasonable notice to Lessees in
18 writing and at reasonable times within the thirty-six month period
19 following the end of a particular calendar year, the Commissioner
20 shall have the right to audit each Lessee's accounts and records
21 relating to the costs used in determining the allowances, charges
22 and deductions for Royalty Oil and Royalty Gas provided for in
23 this Agreement for said calendar year. Upon reasonable notice and
24 at reasonable times during any such audit, the Commissioner shall
25 have access to such accounting records and supporting documentation
26 as are reasonably necessary to determine whether such allowances,
27 charges and deductions have been accurately and correctly
28 calculated; provided, however, that nothing herein shall require
29 a Lessee to retain documents and records for more than thirty-
30 six months after the end of the calendar year during which such
31 documents and records were prepared. Audits shall be conducted
32 in a manner which will result in a minimum of inconvenience to the

1 Lessees, who shall bear no portion of the State's costs incurred
2 for such audits.

3
4 4.6 Confidentiality of Information. The Commissioner
5 shall not be required to keep confidential particular information
6 furnished to him by or on behalf of any Lessee pursuant to this
7 Agreement unless (i) the information constitutes trade secrets, or
8 (ii) the information, if publicly disclosed, would likely result
9 in appreciable competitive or other economic harm to said Lessee.
10 Upon request by or on behalf of said Lessee, such information shall
11 be kept confidential by the Commissioner unless (i) such infor-
12 mation is or becomes part of the public knowledge or literature
13 other than through the fault of or unauthorized disclosure by an
14 officer or employee of the State; or (ii) such information is or
15 becomes available to the Commissioner from a source (other than
16 said Lessee) having the legal right to disclose such information
17 to the Commissioner and said source did not request that the
18 Commissioner keep such information confidential; or (iii) said
19 Lessee notifies the Commissioner that such information no longer
20 need be kept confidential. All documents containing information
21 to be kept confidential shall be clearly marked "confidential"
22 and shall be filed separately from those records of the Department
23 of Natural Resources which are available to persons other than
24 employees of, and legal counsel to, said Department. The forego-
25 ing notwithstanding, if the Commissioner receives a request from
26 or on behalf of any Lessee that particular information furnished
27 to the Commissioner by or on behalf of said Lessee be kept confi-
28 dential, the Commissioner shall give said Lessee thirty days'
29 advance written notice prior to any disclosure of said information,
30 which notice shall specify the grounds for the Commissioner's
31 good faith belief that he is not obligated by the terms of this
32 Section 4.6 to keep said information confidential. Any Lessee,

1 upon reasonable notice from the Commissioner, shall review confi-
2 dential information previously furnished to the Commissioner
3 by said Lessee to determine whether such information no longer
4 need be kept confidential by the Commissioner. If confidential
5 information furnished to the Commissioner by a Lessee pursuant
6 to this Agreement could be publicly disclosed without appreciable
7 competitive or economic harm or other damage to said Lessee,
8 said Lessee, upon reasonable request by the Commissioner, shall
9 notify the Commissioner that such information no longer need
10 be kept confidential.

11
12 4.7 Construction of Agreement. Each of the parties here-
13 to acknowledges that it is entering into this Agreement without
14 reliance in any way upon any statement, representation, action or
15 other matter not specifically set forth herein; and that the Field
16 Cost Allowances and Calculated Conditioning Cost provided for here-
17 in shall be calculated in the manner set forth in, respectively,
18 Sections 2.6, 3.7 and 3.8, and applied as provided in this Agree-
19 ment, without regard to Field Costs (as defined in Subsections
20 2.2.1 and 3.2.9, respectively) and gas Conditioning costs actually
21 incurred by any Lessee. The language in all parts of this Agree-
22 ment shall, in all cases, be construed according to its fair
23 meaning and not strictly for or against any of the parties hereto.
24 Headings at the beginning of Articles, Sections and other subparts
25 of this Agreement are (except in the case of Article 1, Sections
26 2.2, 3.2 and 3.9 and Subsection 3.13.1) solely for the convenience
27 of the parties and are not a part of this Agreement. When required
28 by the context, whenever the singular number is used in this Agree-
29 ment, the same shall include the plural, and the plural shall
30 include the singular; the masculine gender shall include the
31 feminine and neuter genders and vice versa; the word "person"
32 shall include individuals, governmental agencies, departments

1 and entities, and corporations, partnerships and other forms of
2 business association, as the case may be. As used in this Agree-
3 ment: to the extent practicable, "measured" shall mean a metered
4 volume corrected for metering error; the "meter" at which the
5 volume of particular oil or gas is "measured for royalty purposes"
6 shall mean, in the case of Royalty Oil and Royalty Gas produced
7 from lands as to which the Unit Agreement is then effective,
8 the custody transfer meter or other point at which one of the
9 Unit Operators (as defined in the Unit Agreement) relinquishes
10 custody of said oil as Unit Operator; the date on which particular
11 oil or gas is "measured for royalty purposes" shall mean: (i) with
12 respect to particular oil, the date on which said oil reaches the
13 LACT Meter for said oil, regardless of the date on which royalty
14 settlement is made therefor; (ii) with respect to particular RIK
15 Gas, the date on which said gas is taken by the State as royalty
16 "in kind"; and (iii) with respect to particular RIV Gas, the
17 date on which said gas reaches the Intermediate Valuation Point
18 for said gas, regardless of the date on which royalty settlement
19 is made therefor. The quantity of the tailgate residue gas and
20 other products and byproducts yielded from a particular quantity
21 of gas produced from the Unit Area, allocated to a Lessee under
22 the Unit Agreement and delivered to a Gas Conditioning Plant shall
23 be determined in accordance with the Unit Operating Agreement.

24
25 4.8 Units of Measurement. As used in this Agreement,
26 the word "barrel" shall mean a stock tank barrel of 42 standard
27 U.S. gallons measured at or corrected to a pressure of 14.65
28 pounds per square inch absolute ("psia") and a temperature of
29 60° Fahrenheit; "MCF" shall mean 1000 standard cubic feet of gas
30 measured at or corrected to a pressure of 14.65 psia and a tempera-
31 ture of 60° Fahrenheit; and "BTU" shall mean British Thermal Unit.
32 Whenever a volume, value or rate necessary to make a calculation

1 provided for herein is stated in a different unit of measurement
2 or with respect to a different point of measurement from that
3 required to complete said calculation, then the volume, value
4 or rate shall be converted, in accordance with good engineering
5 practices consistently applied, to one which is stated in the
6 required units or at the required point of measurement. Volumes
7 of natural gas liquids (NGL's) measured in liquid form shall
8 be converted to MCF units of measurement for purpose of this
9 Agreement by applying the appropriate component conversion factors
10 as shown in the column entitled "cu ft gas/gal liquid" in Figure
11 16-1 (Physical Constants of Hydrocarbons) in the 1979 edition
12 of the Engineering Data Book published by the Gas Processors
13 Suppliers Association (GPSA).

14
15 4.9 Allocation of RIK Oil and RIK Gas. For the purposes
16 of this Agreement, any RIK Oil or RIK Gas taken by the State under
17 the Unit Agreement during a particular calendar month shall be
18 deemed to have been taken as royalty from each of the respective
19 Lessees in the same proportions as all RIV Oil or RIV Gas, as
20 the case may be, was allocated for that month under the Unit
21 Agreement to each of the respective Lessees for settlement (or,
22 if the State took all its Royalty Oil or Royalty Gas "in kind"
23 during said month, in the same proportions as all such Royalty
24 Oil or Royalty Gas would have been allocated for that month in
25 the absence of any taking "in kind" by the State).

26
27 4.10 Amendment. This Agreement may be modified, amended
28 or supplemented only by a written instrument or instruments exe-
29 cuted by the party to be charged with such modification, amendment
30 or supplement.
31
32

1 4.11 Successors and Assigns. Except as otherwise
2 provided herein, this Agreement shall be binding upon and shall
3 inure to the benefit of each of the parties hereto and their
4 respective heirs, devisees, legal representatives, successors and
5 assigns, and shall constitute a covenant running with the lands,
6 leases and interests covered by this Agreement.
7

8 4.12 Severability. If any provision of this Agreement
9 or the application of such provision to any party or circumstance
10 shall be finally determined by a court of competent jurisdiction
11 to be invalid or unenforceable, the party materially disadvantaged
12 by said determination may, in its sole discretion, either (i) ter-
13 minate this Agreement (as between the State and any Lessee with
14 respect to which the State is materially disadvantaged by said
15 determination, if the State is the party materially disadvantaged
16 thereby; or, if a Lessee is the party materially disadvantaged
17 thereby, as between said Lessee and the State), as of the date
18 of said determination, or (ii) continue the remainder of this
19 Agreement in full force and effect.
20

21 4.13 Execution in Counterparts. This Agreement may
22 be executed in counterparts, each of which shall be deemed to
23 be an original for all purposes, and all of which shall, together,
24 be construed as one and the same instrument. Executed signature
25 pages signed by one or more of the parties hereto may be affixed
26 to one or more copies of the Agreement and, subject to Section
27 4.2, each such copy shall also constitute a duplicate original
28 of this Agreement as between the State and each of the other
29 parties who executed such copy. One or more duplicate originals
30 hereof may be filed in the Superior Court for the State of Alaska,
31 First Judicial District at Juneau.
32

1 4.14 Reservation of Other Disputes. Neither this
2 Agreement nor the payment or acceptance of any sums pursuant
3 to this Agreement nor the performance of any act hereunder shall
4 prejudice any claims or contentions of any of the parties hereto
5 with respect to any issues other than those settled or resolved
6 by the terms of this Agreement. Issues not settled or resolved
7 by the terms of this Agreement include, inter alia, the following:

8
9 (a) The issue of whether, in computing the value of
10 Royalty Oil for the purpose of making royalty payments "in
11 value" on oil produced from the Unit Area, each Lessee may
12 deduct from the LACT Meter Value of said oil all or any
13 portion of any Oil-NGL Blending Costs (as defined in Subsec-
14 tion 2.2.1) incurred by said Lessee with respect to said oil.

15
16 (b) The issue of how, in determining the LACT Meter
17 Value of RIV Oil (from which LACT Meter Value the Field
18 Cost Allowance with respect to said oil may be deducted
19 by a Lessee, pursuant to Section 2.5, in making royalty
20 settlement for said oil), a Lessee is to compute the value
21 of said oil at the LACT meters into TAPS.

22
23 (c) The issue of whether, with respect to gas pro-
24 duced from the Unit Area and taken by the State as royalty
25 "in kind," the State is liable to each Lessee for reimburse-
26 ment of all or any portion of any Cycling Plant Costs (as
27 defined in Subsection 3.2.9) incurred by said Lessee with
28 respect to said gas.

29
30 (d) The issue of whether, in computing the value of
31 Royalty Gas for the purpose of making royalty payments "in
32 value" on gas produced from the Unit Area, each Lessee may

1 deduct from the Intermediate Value of said gas all or any
2 portion of any Cycling Plant Costs (as defined in Subsection
3 3.2.9) incurred by said Lessee with respect to said gas.
4

5 (e) The issue of how, in determining the Intermediate
6 Value of RIV Gas delivered during a particular calendar
7 month to a particular Non-Unit Plant (from which Intermediate
8 Value the Upstream Cost Allowance may be deducted by a Lessee,
9 pursuant to Section 3.5, in making royalty settlement for
10 said gas), in those instances in which a Lessee Bears Con-
11 ditioning Costs (as defined in Paragraph 3.11(b)) with respect
12 to the RIV Gas portion of said Lessee's Inlet Gas (as defined
13 in Paragraph 3.11(a)) for said plant and month, said Lessee
14 is to compute said Lessee's Net Outlet Value (as defined
15 in Subsection 3.11.1) for said plant and month.
16

17 (f) The issue of how, in determining the Intermediate
18 Value of RIV Gas delivered during a particular calendar
19 month to a particular Non-Unit Plant (from which Intermediate
20 Value the Upstream Cost Allowance may be deducted by a Lessee,
21 pursuant to Section 3.5, in making royalty settlement for
22 said gas), a Lessee is to compute the value at the inlet
23 of said plant of the RIV Gas portion of said Lessee's Inlet
24 Gas (as defined in Paragraph 3.11(a)) for said plant and
25 month in those instances in which said Lessee does not Bear
26 Conditioning Costs (as defined in Paragraph 3.11(b)) with
27 respect to said gas, plant and month.
28

29 (g) The issue of where and in what condition the Lessees
30 are obligated to deliver to the State any royalties "in kind"
31 accruing with respect to gas that is produced from the Unit
32 Area, conditioned in the Field Fuel Gas Unit (a part of

1 Shared Group 19, as defined in Exhibit 32A of the Unit Operat-
2 ing Agreement) (hereinafter, the "FFGU"), and not Used In
3 Unit Operations. Nothing herein shall be construed as obli-
4 gating any Lessee to deliver gas conditioned in the FFGU
5 to the State as royalty "in kind," or as an admission that
6 any Lessee is so obligated independent of this Agreement.
7

8 (h) The issue of whether, with respect to any gas
9 produced from the Unit Area and taken as royalty "in kind"
10 that is either (i) measured for royalty purposes prior to
11 Major Gas Sale, or (ii) measured for royalty purposes after
12 Major Gas Sale and conditioned in the FFGU, the State is
13 liable to each Lessee for reimbursement of (1) all of the
14 gathering, separation, cleaning, dehydration, compression
15 and other field handling costs incurred by said Lessee with
16 respect to said gas, and (2) all conditioning and treating
17 costs, if any, incurred by said Lessee with respect to said
18 gas in the FFGU. Nothing herein shall be construed as obli-
19 gating any Lessee to deliver gas conditioned in the FFGU
20 to the State as royalty "in kind," or as an admission that
21 any Lessee is so obligated independent of this Agreement.
22

23 (i) The issue of how the value of the State's royalty
24 share of gas that is produced from the Unit Area and either
25 (i) measured for royalty purposes prior to Major Gas Sale,
26 or (ii) measured for royalty purposes after Major Gas Sale
27 and conditioned in the FFGU, shall be computed for the purpose
28 of making royalty payments "in value."
29
30
31
32

ARTICLE 5: ENTRY OF FINAL JUDGMENT

5.1 Final Judgment. The State and each of the Lessees hereby consent to, and agree to request the Court to make and enter, a Final Judgment in the above-captioned action approving this Agreement.

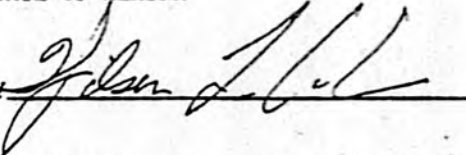
5.2 Effective Date. Sections 4.10, 4.11, 4.13, 5.1 and 5.2 of this Agreement shall become effective upon the execution of this Agreement by all parties hereto. The entire Agreement shall become effective upon the date on which a Final Judgment approving this Settlement Agreement becomes final under Alaska law (herein referred to as the "Effective Date").

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates opposite their respective signatures.

STATE OF ALASKA:

ATTORNEY GENERAL,
STATE OF ALASKA

By



Date:

8 August 80

COMMISSIONER OF NATURAL RESOURCES,
STATE OF ALASKA

By

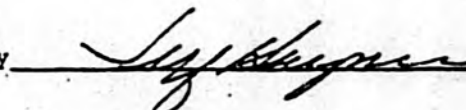


Date:

8 August 80

DIRECTOR OF THE DIVISION OF LANDS,
STATE OF ALASKA

By



Date:

8/11/80

EXHIBIT A

FUNCTIONAL DESCRIPTION OF POSSIBLE GAS
CONDITIONING PLANT DESIGN

The principal function of a Gas Conditioning Plant will be to condition gas to meet sales gas specifications of a major gas pipeline for transportation of gas off the North Slope of Alaska. The final pipeline specifications are as yet unresolved. Currently proposed pipeline specifications include a hydrocarbon dew point of -10°F at 1000 psig (pounds per square inch gauge), a CO_2 content of 1%, an inlet pressure of 1260 psig, and an inlet temperature of 25°F . Based on these assumed pipeline specifications, the R.M. Parsons Company developed a preliminary design for a gas conditioning plant, which design is commonly referred to as the "September 1978 Parsons Study Report." Although the final design of a Gas Conditioning Plant may differ from this preliminary design, facilities required to condition Prudhoe Bay gas to meet pipeline specifications can be illustrated by reference to the Parsons design. The facilities in the Parsons design are divided by function into three main categories:

- (a) Hydrocarbon dew point control and NGL fractionation;
- (b) CO_2 Removal; and
- (c) Compression and Chilling.

Hydrocarbon dew point is controlled to pipeline specifications by lowering the temperature of the incoming gas to condense the heavier hydrocarbon components for removal from the gas stream.

1 The CO₂ content of the gas is reduced by contact with
2 SELEXOL solvent, which absorbs the CO₂.

3
4 The gas is then compressed from approximately 500 psig
5 to pipeline pressure, and chilled by mechanical refrigeration
6 from 90°F to 25°F.

7
8 Current plans envision a "stand-alone" plant; i.e., all
9 facilities such as power, utilities, flare systems, communications
10 systems, etc. used to support the plant will be incorporated into
11 the plant design and therefore will be considered to be part of
12 the plant regardless of where such facilities are physically
13 located. If the plant that is ultimately constructed utilizes
14 existing or future Support Facilities, a share of the costs at-
15 tributable to such Support Facilities shall be included in com-
16 puting the Calculated Conditioning Cost.

EXHIBIT B

PARTIAL LIST OF POTENTIAL SUPPORT FACILITIES

<u>TYPE OF FACILITY</u>	<u>ALLOCATION BASIS</u>
Flares	Investment Ratio
Utilities	Investment Ratio
Supervisory Controls	Investment Ratio
Communications	Investment Ratio
Roads and Bridges	Investment Ratio
Central Power System	Percentage Based on Usage
Field Fuel Gas Unit	Percentage Based on Usage
Construction Related Facilities	Investment Ratio
Operations Related Facilities	Investment Ratio

040880

B-1

EXHIBIT C

FUNCTIONAL DESCRIPTION OF
UPSTREAM GAS FACILITIES

Upstream gas facilities include all direct and support equipment necessary to clean, dehydrate and transport gas between the outlets of the gas/oil separators and the inlet of the Gas Conditioning Plant or, if there is no Gas Conditioning Plant, the inlet of a major gas pipeline for transportation of gas off the North Slope of Alaska. The facilities are divided by function into three main categories:

- (a) Compression;
- (b) Dehydration; and
- (c) Gathering.

Separation of natural gas from crude oil at the flow stations/gathering centers is currently accomplished at four pressure levels: high pressure separators at 650 psig, intermediate pressure separators at 85 psig, treaters at 25 psig, and oil surge tanks at 1.5 psig. The function of the upstream gas facilities is to compress and dehydrate the gas streams from gas/oil separators for delivery through the gas gathering lines to the Gas Conditioning Plant (or major gas pipeline). Compressors take suction from gas/oil separators and are required to provide the necessary pressure to transport gas from separators through the gathering system. The gas is dehydrated by contact with glycol prior to being transported in gathering lines.

EXHIBIT D

DETERMINATION OF CALCULATED CONDITIONING COST

This Exhibit illustrates the manner in which the Calculated Conditioning Cost (per MCF) is to be determined pursuant to Section 3.8 for a particular Gas Conditioning Plant, whether or not such plant is Unit Equipment.

Assumptions:¹

- (A) "Major Gas Sale" occurs on July 20, 1986.
- (B) The "Initial Period" begins at 12:01 A.M. on August 1, 1986 and ends at the end of 1987.
- (C) The "Base Period" is 1988.
- (D) The Commissioner is notified of the amount of the Base Amount on February 26, 1988.

Calculate:

(1) Initial Amount (the Calculated Conditioning Cost for Royalty Gas measured for royalty purposes after Major Gas Sale and prior to the end of the calendar month during which the Commissioner is notified of the Base Amount (July 20, 1986, through February 29, 1988, given the foregoing assumptions) (§ 3.8.1):

¹The assumptions in this Exhibit are fictitious and are made only for the purpose of illustrating the application of Section 3.8. No party is entering into this Agreement in reliance on any of these assumptions or conclusions drawn therefrom.

(a) Initial Amount = $IC_B + OMC_B$.

(b) IC_B = an estimate of IC_B , made in accordance with § 3.8.1(b).

(c) OMC_B = an estimate of OMC_B , made in accordance with § 3.8.1(b).

(d) $IC_B = \frac{I + D + AVT}{TPTIP}$.

(e) $OMC_B = \frac{O\&MIP}{TPTIP}$.

(f) $I = (PIC_{IP}) \times (R_{IP})$.

(g) $D = \left(\frac{1}{300}\right) \times (PIC_{IP}) \times (M)$.

(h) $AVT = \left(\frac{1}{12}\right) \times (AV) \times (M)$.

Therefore, Initial Amount = an estimate of:

$$\frac{(PIC_{IP}) \times (R_{IP}) + \left(\frac{1}{300}\right) \times (PIC_{IP}) \times (M) + \left(\frac{1}{12}\right) \times (AV) \times (M) + O\&MIP}{TPTIP}$$

Where:

IC_B = Base Investment Component (§ 3.8.1(a)(1)).

OMC_B = Base O&M Component (§ 3.8.1(a)(2)).

I = Interest on Plant Investment Costs
(§ 3.8.1(a)(1)).

1 D = Depreciation (§ 3.8.1(a)(1)).

2
3 AVT = Ad Valorem Taxes (§ 3.8.1(a)(1)).

4
5 TPTip = Total Plant Throughput for the Initial
6 Period (§ 3.2.25).

7
8 O&Mip = Plant O&M Costs for the Initial Period
9 (§ 3.8.1(a)(2)).

10
11 PICip = Plant Investment Costs as of the end of the
12 Initial Period (§ 3.2.22).

13
14 Rip = Effective Rate Of Interest for the Initial
15 Period (§ 3.2.8).

16
17 M = Number of months in the Initial Period
18 (§ 3.2.13) (Given the foregoing assump-
19 tions, M = 17).

20
21 AV = All ad valorem taxes applicable to the Gas
22 Conditioning Plant for the last year of
23 the Initial Period, plus a portion of the
24 total of all ad valorem taxes applicable
25 to all Support Facilities for such year
26 (allocated on the basis set forth in
27 Subsection 3.2.24) (§ 3.8.1(a)(1)).

28
29 (2) Base Amount (the Calculated Conditioning Cost
30 for Royalty Gas measured for royalty purposes after the end of
31 the calendar month during which the Commissioner is notified of
32 the Base Amount and prior to the end of the Base Period (March 1,

1 1988, through December 31, 1988, given the foregoing assumptions)
 2 (\$ 3.8.2)):

$$3 \text{ Base Amount} = IC_B + OMC_B.$$

4 Therefore, Base Amount =

$$5 \frac{(PIC_{IP}) \times (R_{IP}) + \left(\frac{1}{300}\right) \times (PIC_{IP}) \times (M) + \left(\frac{1}{12}\right) \times (AV) \times (M) + O\&_{IP}}{6 \text{ TPT}_{IP}}$$

7 Where: All terms have the meaning given to them in (1)
 8 above.

9 (3) Adjusted Amount (the Calculated Conditioning Cost
 10 for Royalty Gas measured for royalty purposes during a particular
 11 calendar year after the end of the Base Period (1989 and thereafter,
 12 given the foregoing assumptions) (\$ 3.8.3)):

$$13 \text{ (a) Adjusted Amount} = IC_A + OMC_A.$$

$$14 \text{ (b) } IC_A = (IC_B) \times \left(\frac{PIC_N}{PIC_{IP}}\right).$$

$$15 \text{ (c) } OMC_A = (OMC_B) \times \left(\frac{PPI_N}{PPI_{IP}}\right).$$

16 Therefore, Adjusted Amount =

$$17 (IC_B) \times \left(\frac{PIC_N}{PIC_{IP}}\right) + (OMC_B) \times \left(\frac{PPI_N}{PPI_{IP}}\right),$$

18 Where:

19 IC_A = Adjusted Investment Component.

1 OMCA = Adjusted O&M Component.

2
3 PICN = Plant Investment Costs as of December 31 of
4 the year prior to the Year Of Production
5 with respect to the particular Royalty
6 Gas for which the Calculated Conditioning
7 Cost is being calculated (§ 3.2.22).

8
9 PPI_N = PPI for the year prior to the Year Of Production
10 with respect to the particular Royalty Gas
11 for which the Calculated Conditioning Cost
12 is being calculated (§ 1.5).

13
14 PPI_{IP} = PPI for the last month of the Initial Period
15 (§ 1.5).

16
17 All other terms have the meaning given to them in (1)
18 above.

EXHIBIT E

DETERMINATION OF THE VOLUME OF RIK GAS TO WHICH
THE CALCULATED CONDITIONING COST APPLIES

This Exhibit illustrates, with respect to RIK Gas for a particular calendar month taken as royalty from a particular Lessee ("Lessee Y") and tendered during that calendar month to a particular Gas Conditioning Plant that is either an Unregulated Divided Plant (§§ 3.9.1, 3.9.5) or an Unregulated Majority Owned Plant (§§ 3.9.2, 3.9.5), the manner in which one calculates the volume of the portion of said gas that Lessee Y is obligated, pursuant to Subsection 3.10.1, to Condition for a Conditioning charge equal to the Calculated Conditioning Cost (§ 3.8).

Assumptions:¹

- (A) There is only one Gas Conditioning Plant.
- (B) The Gas Conditioning Plant is either an Unregulated Majority Owned Plant or an Unregulated Divided Plant (§ 3.9).
- (C) Lessee Y owns a 40% interest in the Gas Conditioning Plant.
- (D) The State has not elected to abandon the Calculated Conditioning Cost with respect to Lessee Y (§ 3.12).

¹The assumptions in this Exhibit are fictitious and are made only for the purpose of illustrating the application of Subsection 3.10.1. No party is entering into this Agreement in reliance on any of these assumptions or conclusions drawn therefrom.

- 1
2 (E) During the month in question the State has taken
3 70% of its Royalty Gas for said month "in kind".
4 (F) Total Plant Throughput for the month in question
5 is 75,000,000 MCF.
6 (G) The volume of RIK Gas tendered during the month in
7 question by the State and all of its Assignees
8 for Conditioning in the Gas Conditioning Plant
9 is 2,100,000 MCF.
10

11 Calculate:
12

- 13 (1) The volume described in § 3.10.1(i) (hereinafter,
14 "Volume (i)"):
15

16 Volume (i) = the total volume of RIK Gas for the
17 month in question that is taken as royalty
18 from Lessee Y and tendered during said calendar
19 month by the State and all of its Assignees
20 for Conditioning in the Gas Conditioning Plant.
21

22 = 2,100,000 MCF.
23

- 24 (2) The volume described in § 3.10.1(ii) (hereinafter,
25 "Volume (ii)"):
26

27 Volume (ii) = $(TPT_M) \times (POP_Y) \times (12.5\%) (PTIK_M)$
28 = $(75,000,000 \text{ MCF}) \times (40\%) \times (12.5\%) \times (70\%)$
29 = 2,625,000 MCF.
30

31 Where:
32

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TPT_M = Total Plant Throughput for the calendar month
in question (§ 3.2.25).
 $POPy$ = Lessee Y's percentage of ownership in the
Gas Conditioning Plant.
 $PRIK_M$ = The percentage of Royalty Gas for the calendar
month in question which the State has
taken "in kind" during said month.

(3) The volume of the portion of the RIK Gas tendered
during the month in question by the State and
all of its Assignees for Conditioning in a partic-
ular Gas Conditioning Plant to which the Calculated
Conditioning Cost applies (hereinafter, "CCC
Volume"):

(a) CCC Volume = Lesser of Volume (i) or
Volume (ii).

(b) 2,100,000 MCF is less than 2,625,000 MCF.

Therefore, CCC Volume = 2,100,000 MCF.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suede G. Kelly.

Regulations Governing the Conduct of Open
Seasons for Alaska Natural Gas Transportation
Projects

Docket No. RM05-1-001

ORDER NO. 2005-A

ORDER ON REHEARING AND CLARIFICATION

(Issued June 1, 2005)

1. On February 9, 2005, the Federal Energy Regulatory Commission (Commission) issued a Final Rule, Order No. 2005,¹ amending its regulations by adding Subpart B to Part 157 to establish requirements governing the conduct of open seasons for capacity on proposals to construct Alaska natural gas transportation projects. Order No. 2005 fulfilled the Commission's responsibilities to issue open season regulations under section 103 of the Alaska Natural Gas Pipeline Act (ANGPA or the Act), enacted on October 13, 2004. Section 103(e)(1) of the Act directs the Commission, within 120 days from enactment of the Act, to promulgate regulations governing the conduct of open seasons for Alaska natural gas transportation projects, including procedures for allocation of capacity. As required by section 103(e)(2) of the Act, the regulations promulgated in Order No. 2005 (1) include the criteria for and timing of any open season, (2) promote competition in the exploration, development, and production of Alaska natural gas, and (3) for any open seasons for capacity exceeding the initial capacity, provide for the

¹ *Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas Transportation Projects*, RM05-1-000, Order No. 2005, FERC Stats. and Regs.

¶ 31,174 (2005).

opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units.

2. The Commission affirms here the legal and policy conclusions on which Order No. 2005 was based. As stated in Order No. 2005, the goal of the open season regulations is to design an open season process that provides non-discriminatory access to capacity on any Alaska natural gas transportation project and, at the same time, allows sufficient economic certainty to support the construction of the pipeline and thereby provide a stimulus for exploration, development, and production of Alaska natural gas. We find that Order No. 2005's open season rules as revised and clarified herein, satisfy that goal and, therefore, are in the public interest.

Background

3. ANSPA mandates the expedited processing by the Commission of any application for an Alaska natural gas transportation project. To this end, as stated above, section 103(e)(1) of the Act specifically directs the Commission to prescribe the rules which shall apply to any open season held for the purpose of soliciting interest in, or making binding commitments to the acquisition of capacity on, any Alaska natural gas transportation project, including the criteria for allocating capacity among competing bidders. In this regard, Congress instructed the Commission to include in its regulations the criteria for, and timing of, any open season, and to design its open season regulations to promote competition in the exploration, development, and production of Alaska natural gas and, as to any open season for the voluntary expansion² of the initial capacity of any Alaska natural gas transportation project, to specifically provide the opportunity for gas other than Prudhoe Bay and Point Thomson production to have access to the pipeline.

4. In response to the Act's directive, on November 15, 2004, the Commission issued in Docket No. RM05-1-000 a Notice of Proposed Rulemaking (NPR) in this proceeding

² Excluded from the scope of the open season rules are expansions compelled by the Commission pursuant to section 105 of the Act. Section 105 authorizes the Commission to order these "involuntary" expansions upon the request of one or more persons, and upon the satisfaction of certain statutory criteria.