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)?

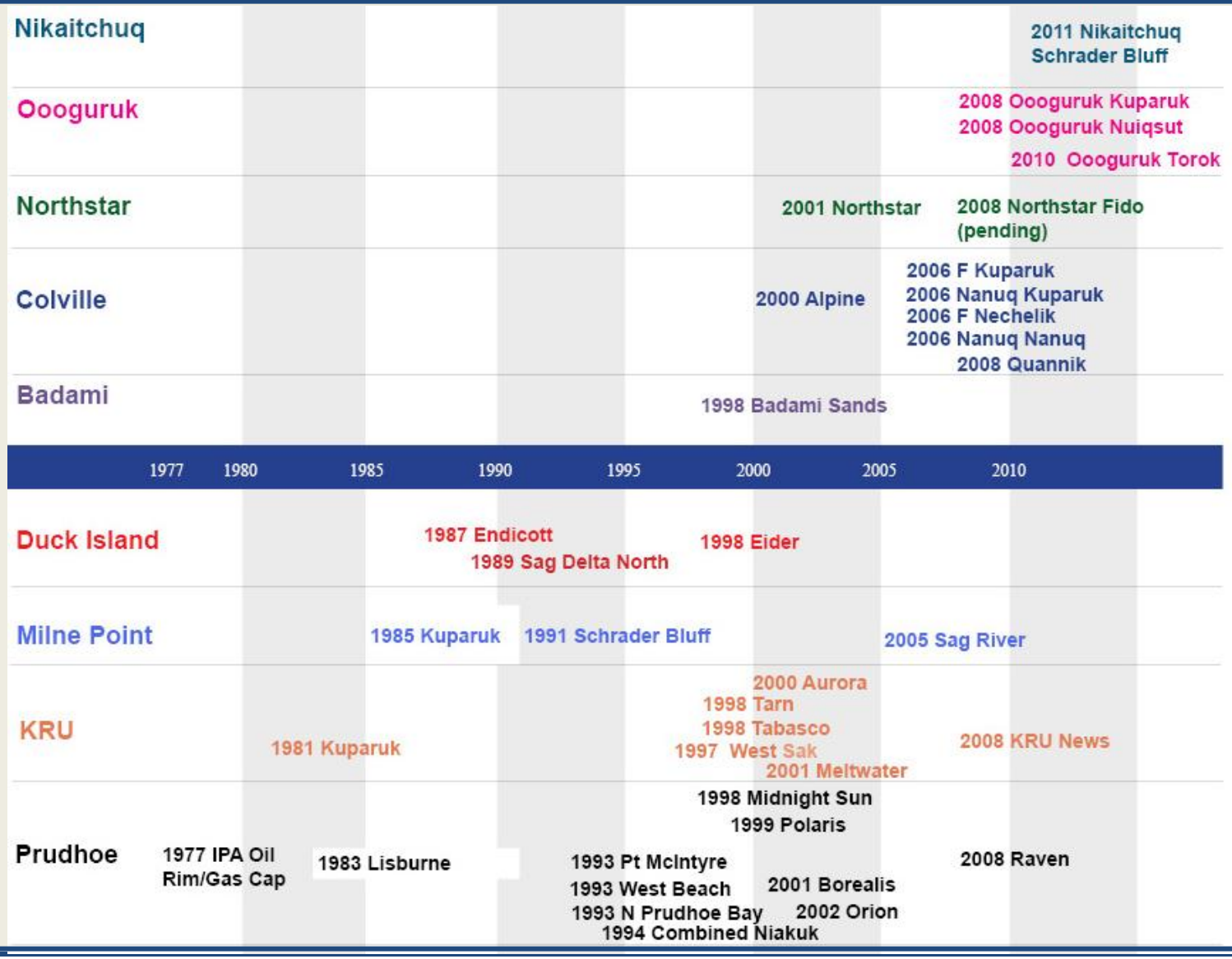
A set of tracts within a Unit, overlying a reservoir which is on sustained production

- 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

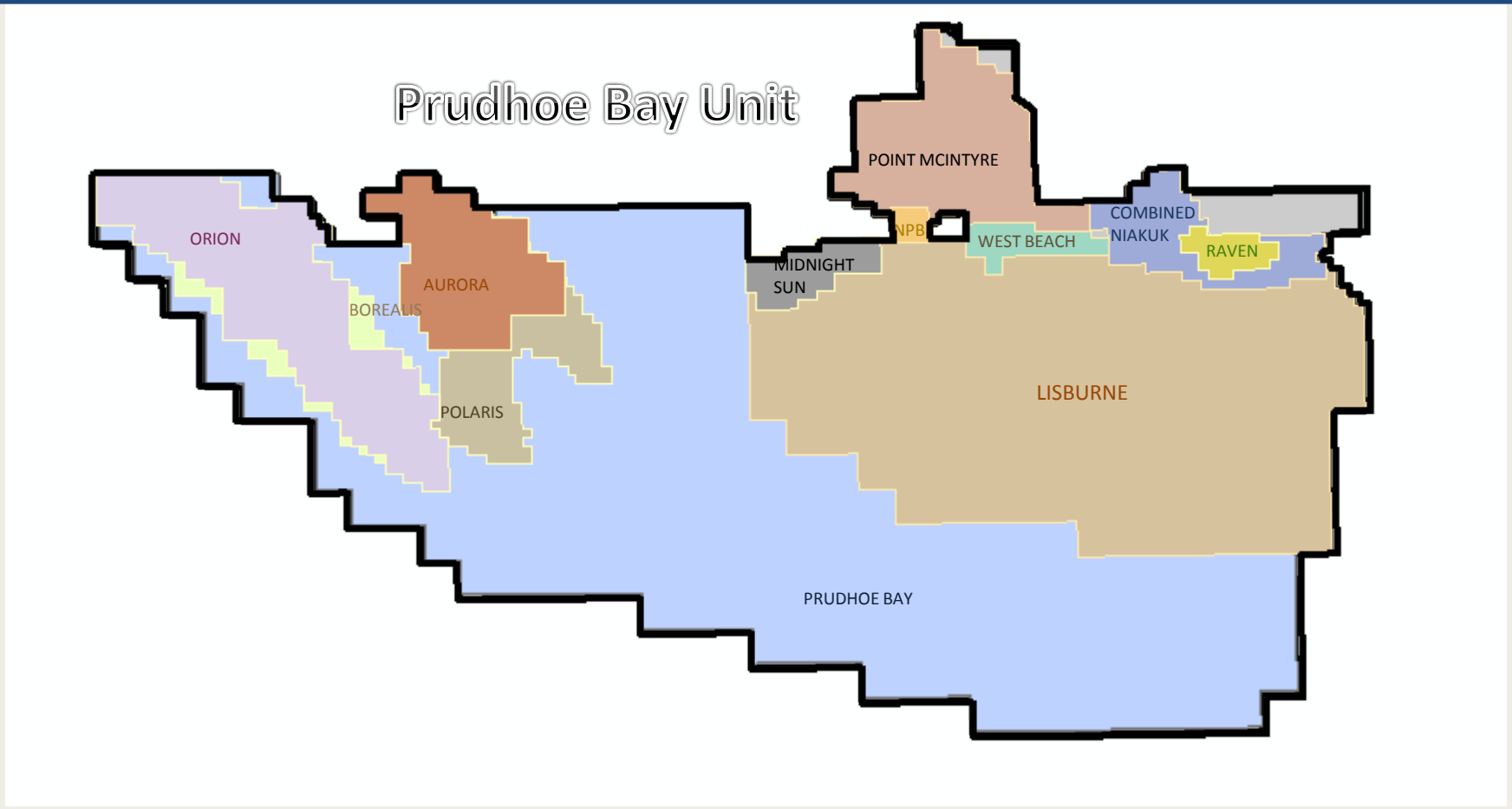
Regulations

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

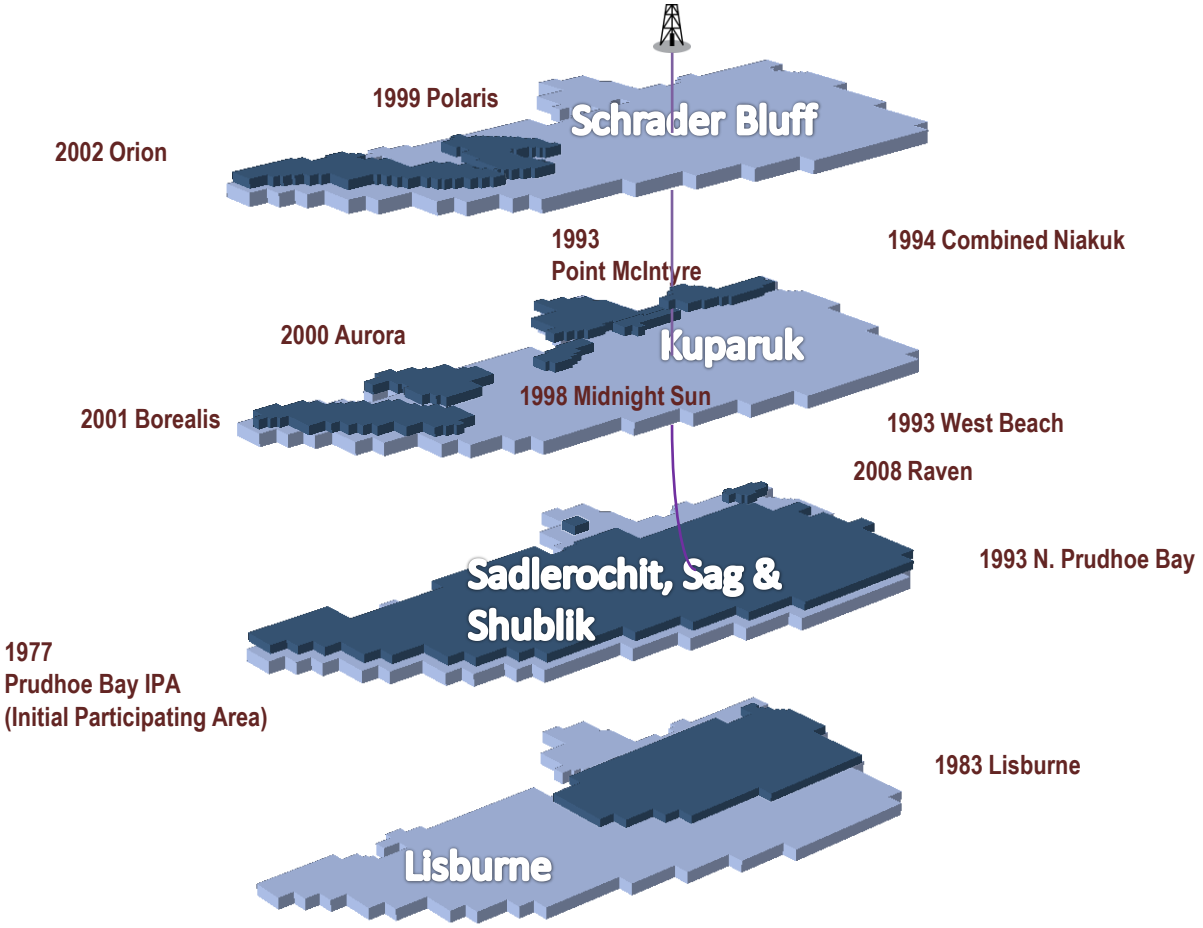
North Slope PAs



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

Nikaitchuq Unit Tract Number	Lessor / Royalty Owner Lease Serial No.	Description of Unitized Lands	Unitized Acres Within Participating Area	Royalty Rate	ORRI Owners	Overriding Royalty Interest	Working Interest Owners & Percentage Working Interest	UnitTract Participation (Based on Surface Acres)
9	390615	**T14N., R.9 E., UMIAT MERIDIAN**						
		Sec. 28 Protracted, All	640.0000	0.16667	GMT Exploration North Slope Royalty Company, LLC	0.13333	Eni: 100%	20.15%
		Sec. 33 Protracted, All	640.0000		Wm D Armstrong	0.72797		
			1280.0000		Jesse V Sommer	0.02167		
					Edgar Kerr	0.02167		
					Jeffery A Lyslo	0.02167		
					Patricia M Reed	0.02167		
					Matthew X Furin	0.02167		
					Stuart W Gustafson	0.02167		
					Chester E Paris	0.00867		
					total	0.99999		
10	390616	**T14N., R.9 E., UMIAT MERIDIAN**						
		Sec. 29 Protracted, All	640.0000	0.16667	GMT Exploration North Slope Royalty Company, LLC	0.13333	Eni: 100%	20.15%
		Sec. 32 Protracted, All	640.0000		Wm D Armstrong	0.72797		
			1280.0000		Jesse V Sommer	0.02167		
					Edgar Kerr	0.02167		
					Jeffery A Lyslo	0.02167		
					Patricia M Reed	0.02167		
					Matthew X Furin	0.02167		
					Stuart W Gustafson	0.02167		
					Chester E Paris	0.00867		
					total	0.99999		
16	388577	**T14N., R.8 E., UMIAT MERIDIAN**						
		Sec. 26 Protracted, Tide and submerged lands, E/2	320.0000	0.16667	ConocoPhillips	4.250%	Eni: 100%	10.08%
		Sec. 35 Protracted, Tide and submerged lands, E/2	320.0000					
			640.0000		total	4.250%		
18	391283	**T14N., R.8 E., UMIAT MERIDIAN Segment 2**						
		Sec. 24 Protracted, S/2	320.0000	0.12500	ConocoPhillips	3.324%	Eni: 100%	46.62%
		Sec. 25 Protracted, All	640.0000	30% NPS	BP	2.357%		
		Sec. 36 Protracted, All	640.0000		Exxon	0.200%		
		T14N., R.9 E., UMIAT MERIDIAN			Unocal	0.297%		
		Sec. 19 Protracted, S/2	308.5000		William D. Armstrong	0.486070%		
		Sec. 30 Protracted, All	620.0000		Jesse V. Sommer	0.014560%		
		Sec. 31 Protracted, All	623.0000		Edgar Kerr	0.014560%		
			3151.5000		Jeffrey A. Lyslo	0.014560%		
					Patricia M. Reed	0.014592%		
		Total Unitized Land Within Participating Area:	6351.5000		Matthew X. Furin	0.014592%		
					Stuart W. Gustafson	0.014592%		
					Chester E. Paris	0.005830%		
					GMT Exploration Company, LLC	0.089570%		
					total	6.849922%		

Total State Land: 6351.5000
Total BLM Land: 0.0000
Total Unitized Land: 6,351.50

1 of 1

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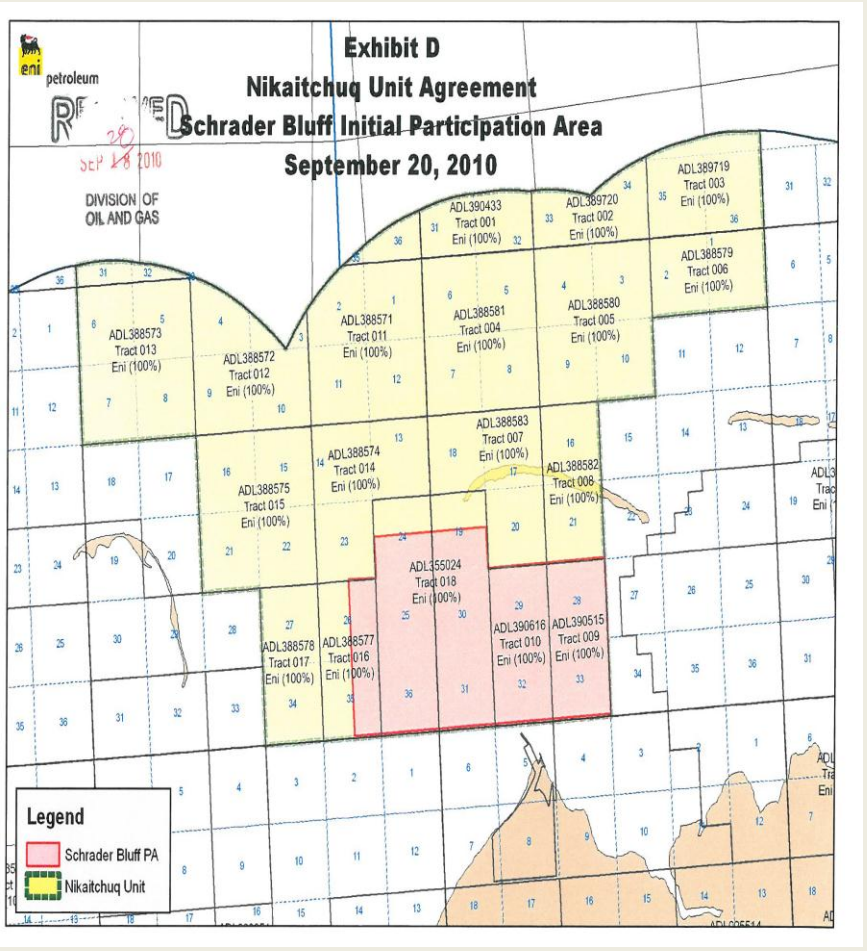
SEP 28 2010
DIVISION OF
OIL AND GAS



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 Operated 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

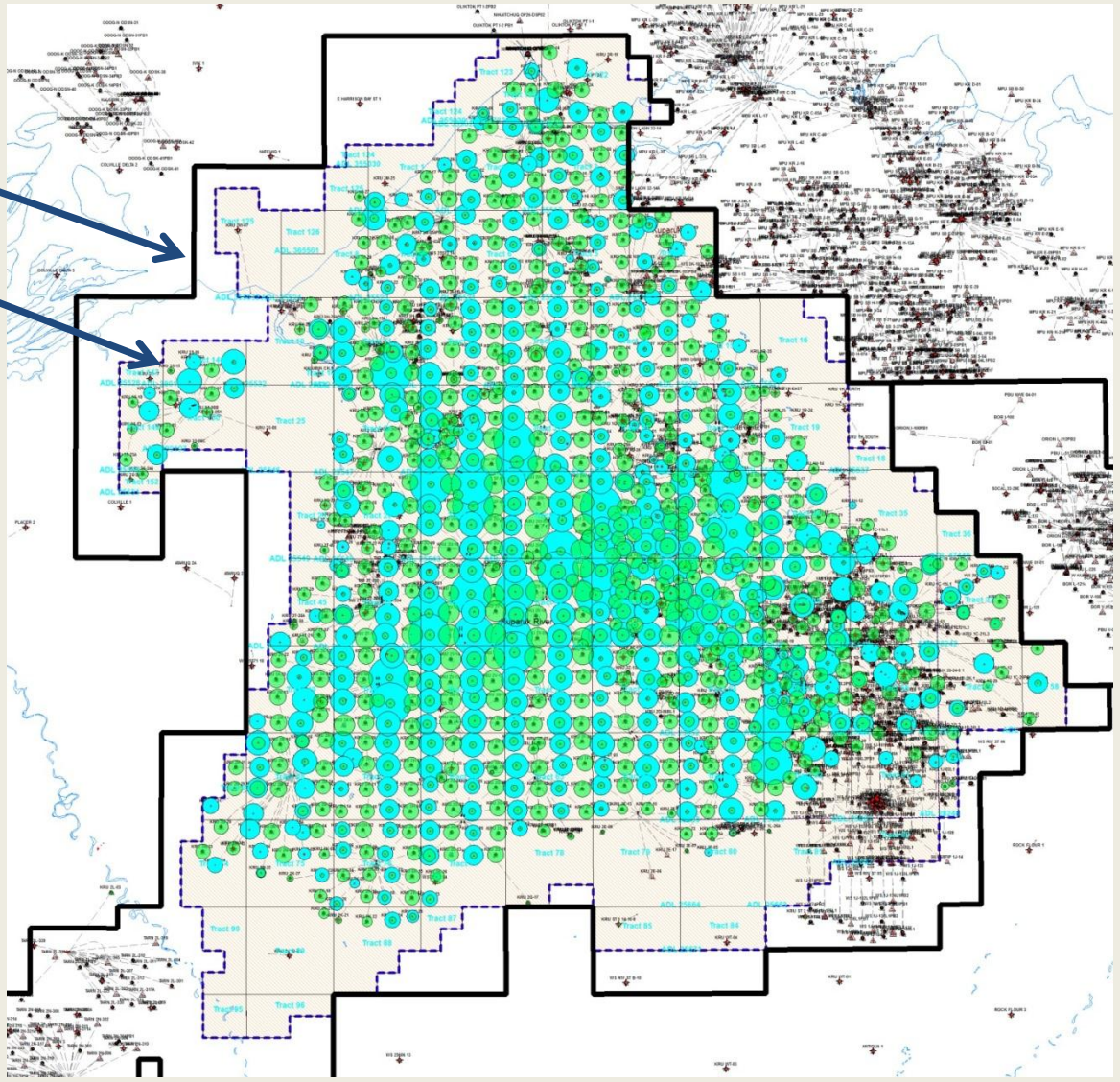
Revisions *to* Division *of* Interest: Reallocations

- **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

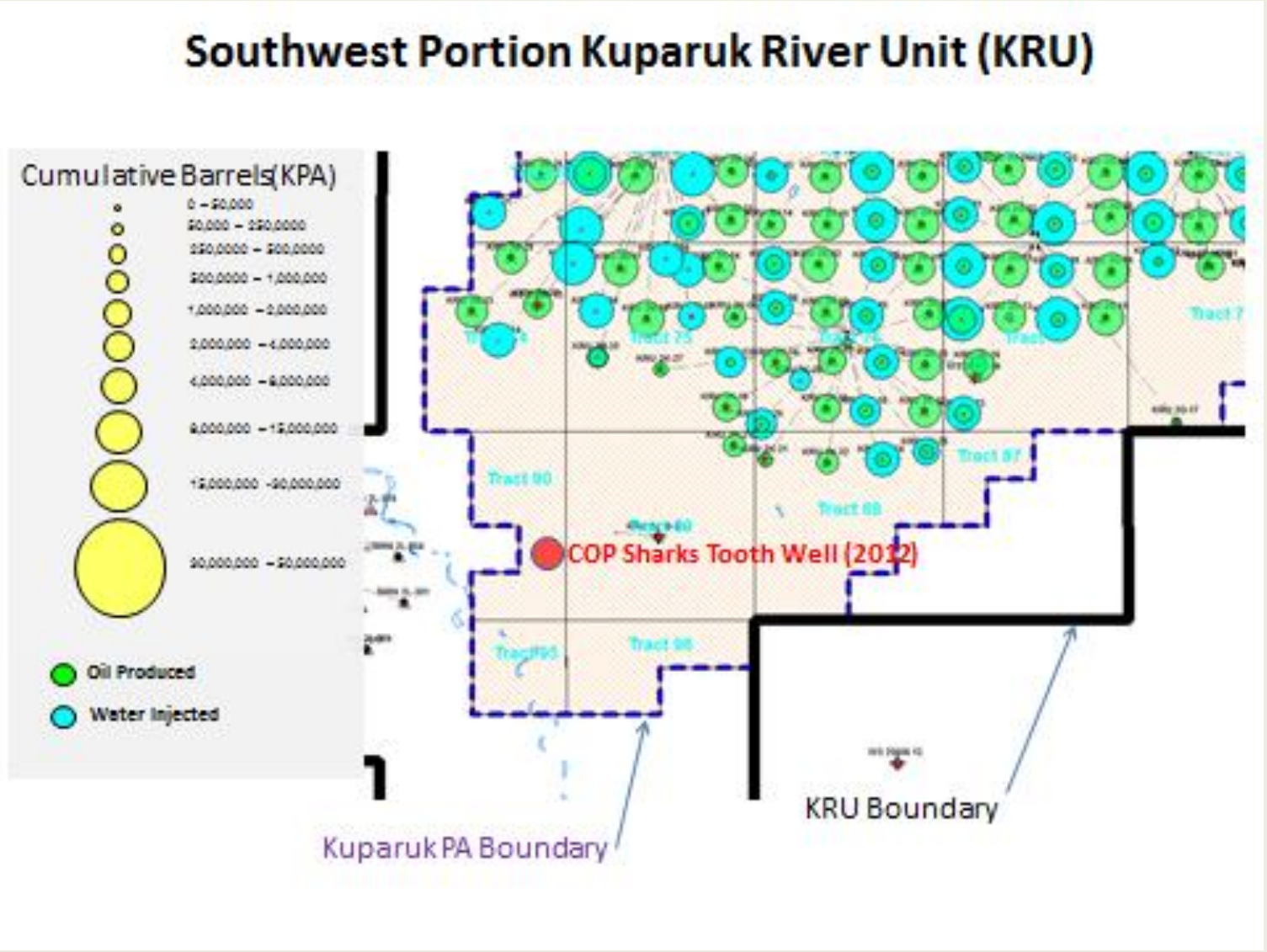
Kuparuk River Unit (KRU)

KRU Boundary

Kuparuk PA Boundary



Kuparuk River Unit (KRU)



Questions?