

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

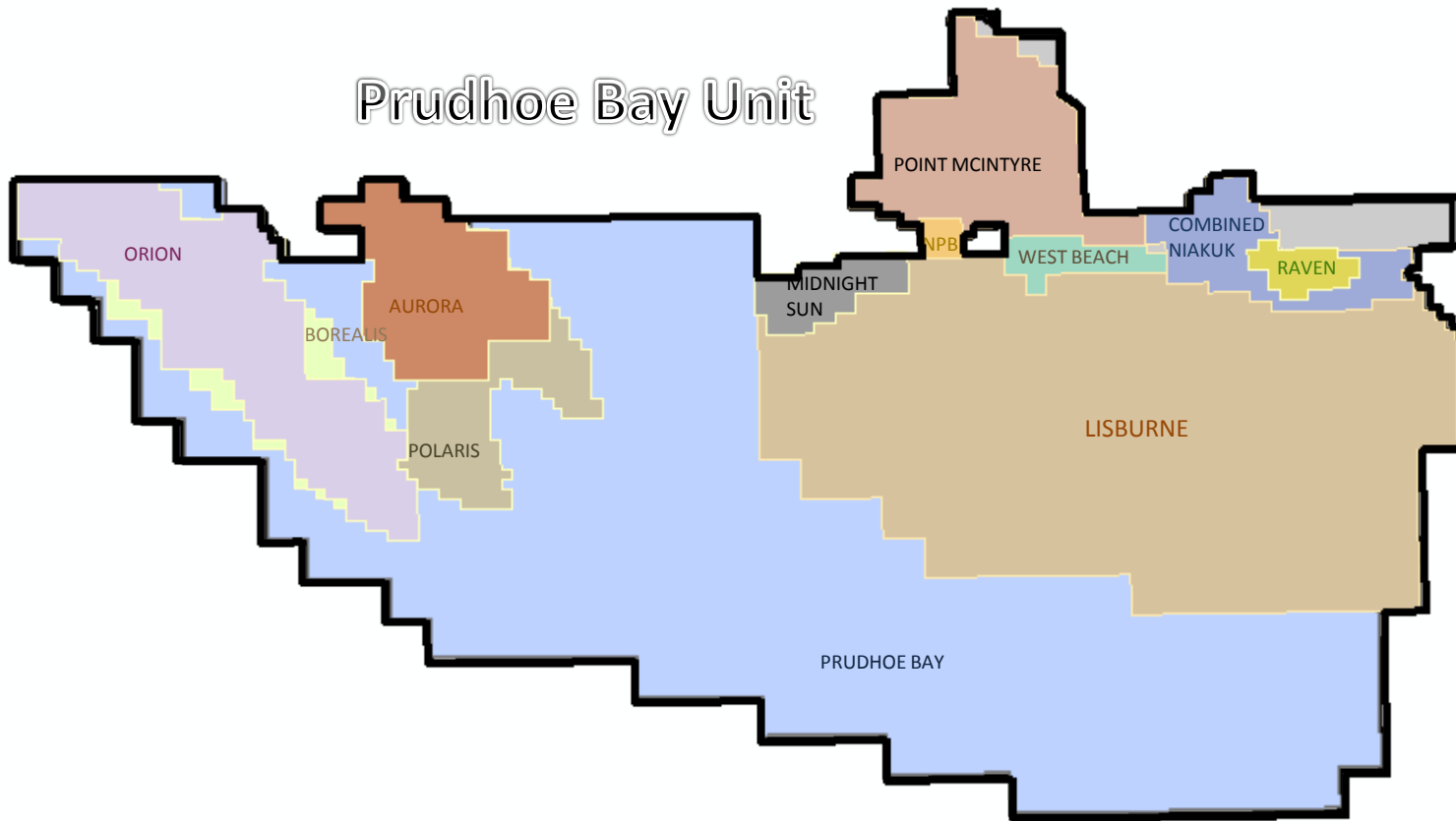
NORTH SLOPE PAS

Nikaitchuq								2011 Nikaitchuq Schrader Bluff
Ooguruk								2008 Ooguruk Kuparuk 2008 Ooguruk Nuiqsut 2010 Ooguruk Torok
Northstar						2001 Northstar		2008 Northstar Fido (pending)
Colville						2000 Alpine		2006 F Kuparuk 2006 Nanuq Kuparuk 2006 F Nechelik 2006 Nanuq Nanuq 2008 Quannik
Badami						1998 Badami Sands		

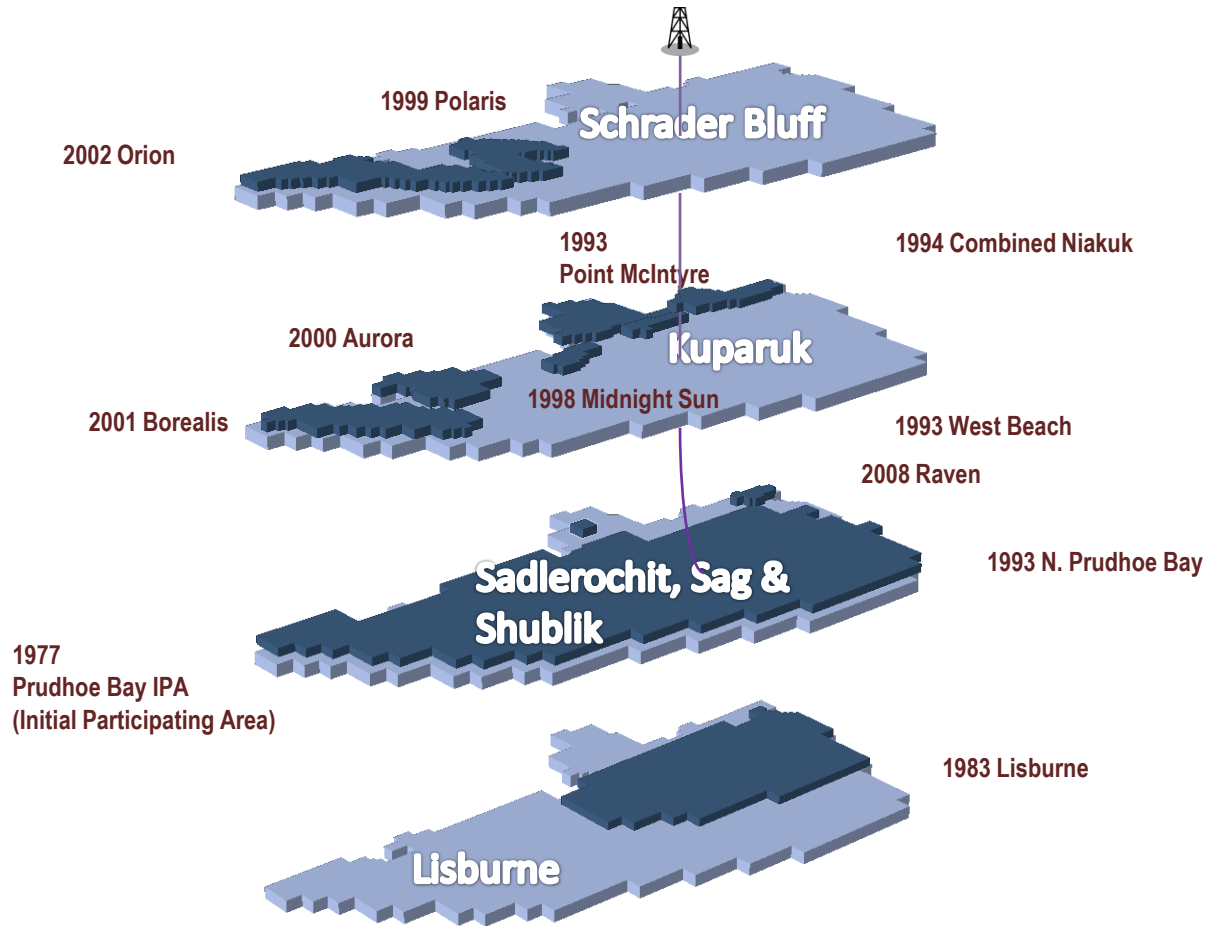
1977 1980 1985 1990 1995 2000 2005 2010

Duck Island			1987 Endicott 1989 Sag Delta North			1998 Eider		
Milne Point			1985 Kuparuk	1991 Schrader Bluff			2005 Sag River	
KRU		1981 Kuparuk				1997 West Sak 2001 Meltwater 1998 Tarn 2000 Aurora		2008 KRU News
Prudhoe	1977 IPA Oil Rim/Gas Cap	1983 Lisburne			1993 Pt McIntyre 1993 West Beach 1993 N Prudhoe Bay 1994 Combined Niakuk	1998 Midnight Sun 1999 Polaris	2001 Borealis 2002 Orion	2008 Raven

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

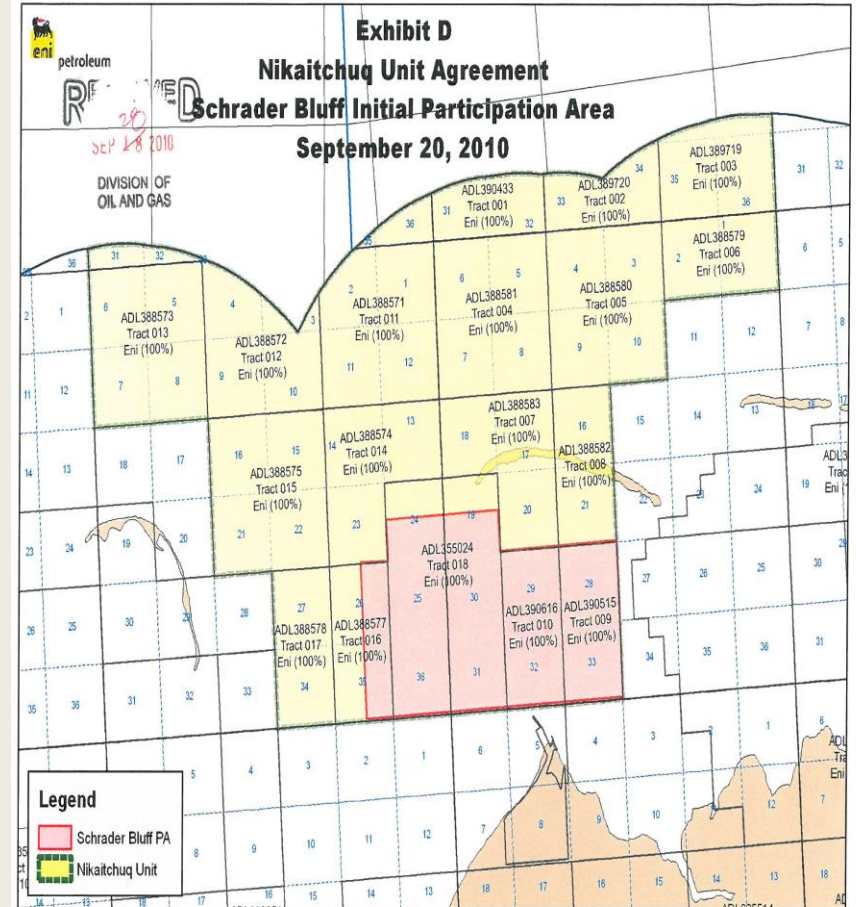
NIKAITCHUQ UNIT AGREEMENT: Exhibit C SCHRADER BLUFF PARTICIPATING AREA Nikaichuq Unit Area

September 20, 2010

Multichase Unit Tract Number	Lessee/Royalty Owner Lease Serial No.	Description of Unleased Lands	Unleased Acres Within Participating Area	Royalty Rate	ORRI Owners	Overriding Royalty Interest	Working Interest Owners & Percentage Working Interest	Unit/Tract Participation (Based on Surface Acres)																										
9	390615	T14N, R8E, UMAT MERIDIAN Sec: 28 Protracted, AI Sec: 33 Protracted, AI	640.0000 640.0000 1280.0000	0.16667	GMT Exploration North Slope Royalty Company, LLC Wm D Armstrong Jesse V Sommer Edgar Kerl Jeffrey A Lytle Patricia M Reed Matthew K Furr Stuart W Gustafson Chester E Paris	0.13333 0.72797 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167	Enr 100%	28.19%																										
									total	0.99999																								
									10	390616	T14N, R8E, UMAT MERIDIAN Sec: 23 Protracted, AI Sec: 32 Protracted, AI	640.0000 640.0000 1280.0000	0.16667	GMT Exploration North Slope Royalty Company, LLC Wm D Armstrong Jesse V Sommer Edgar Kerl Jeffrey A Lytle Patricia M Reed Matthew K Furr Stuart W Gustafson Chester E Paris	0.13333 0.72797 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167 0.02167	Enr 100%	28.19%																	
																		total	0.99999															
																		16	388577	T14N, R8E, UMAT MERIDIAN Sec: 28 Protracted, Tide and submerged lands, E2 Sec: 35 Protracted, Tide and submerged lands, E2	320.0000 320.0000 640.0000	0.16667	ConocoPhillips	4.260%	Enr 100%	10.08%								
																											total	4.260%						
																											18	391283	T14N, R8E, UMAT MERIDIAN Segment 2 Sec: 34 Protracted, S2 Sec: 25 Protracted, AI Sec: 35 Protracted, AI T14N, R8E, UMAT MERIDIAN Sec: 19 Protracted, S2 Sec: 30 Protracted, AI Sec: 31 Protracted, AI	320.0000 640.0000 640.0000 308.5000 620.0000 620.0000 3151.5000	0.13300	ConocoPhillips BP Exxon Urocal William D. Armstrong Jesse V. Sommer Edgar Kerl Jeffrey A Lytle Patricia M. Reed Matthew K. Furr Stuart W. Gustafson Chester E. Paris GMT Exploration Company, LLC	3.394% 2.327% 0.200% 0.267% 0.48610% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960% 0.014960%	Enr 100%
																		total	6.848222%															
																		Total Unleased Land Within Participating Area:	6361.5000															
																		Total State Land:	6361.5000															
																		Total NLM Land:	3100.00															
																		Total Unleased Land:	6,361.50															

1 of 1

RECEIVED
SEP 28 2010
DIVISION OF OIL AND GAS



PA PLAN *of* DEVELOPMENT

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

TRACT ALLOCATION FACTORS

11 AAC 83.371

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

REVISIONS *to* DIVISION *of* INTEREST: REALLOCATIONS

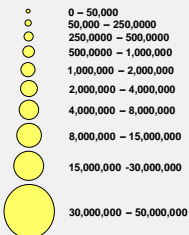
- **Production is reallocated**
 - As PA expands of contracts
 - Development wells identified and committed to in Plan of Development
 - Expansion of Milne Point Unit Sag River PA
 - Contraction of Milne Point Unit Sag River PA
 - As basis for allocation changes
 - Field matures, more technical information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

KUPARUK RIVER UNIT (KRU)

KRU Boundary

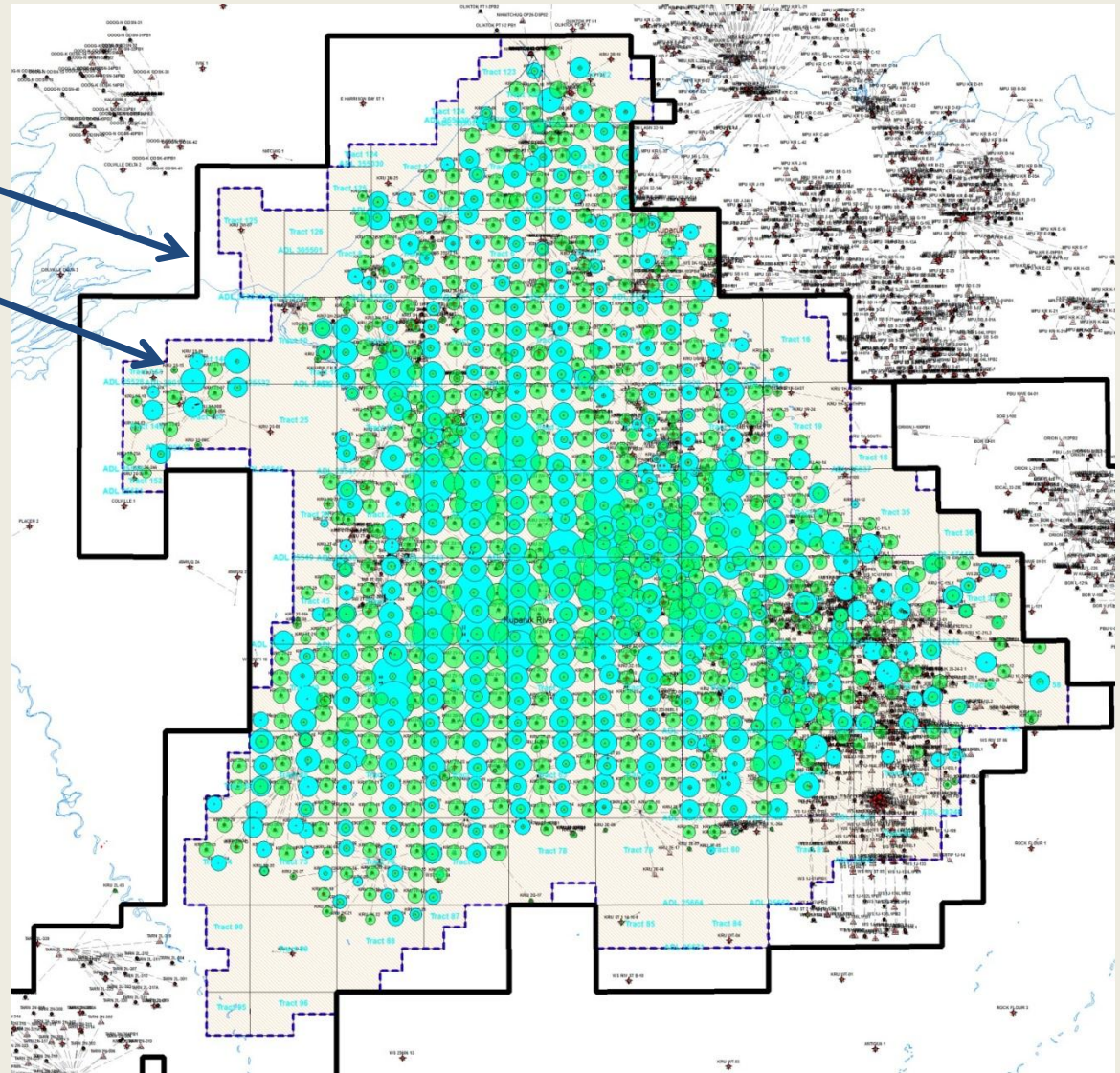
Kuparuk PA Boundary

Cumulative Barrels (KPA)



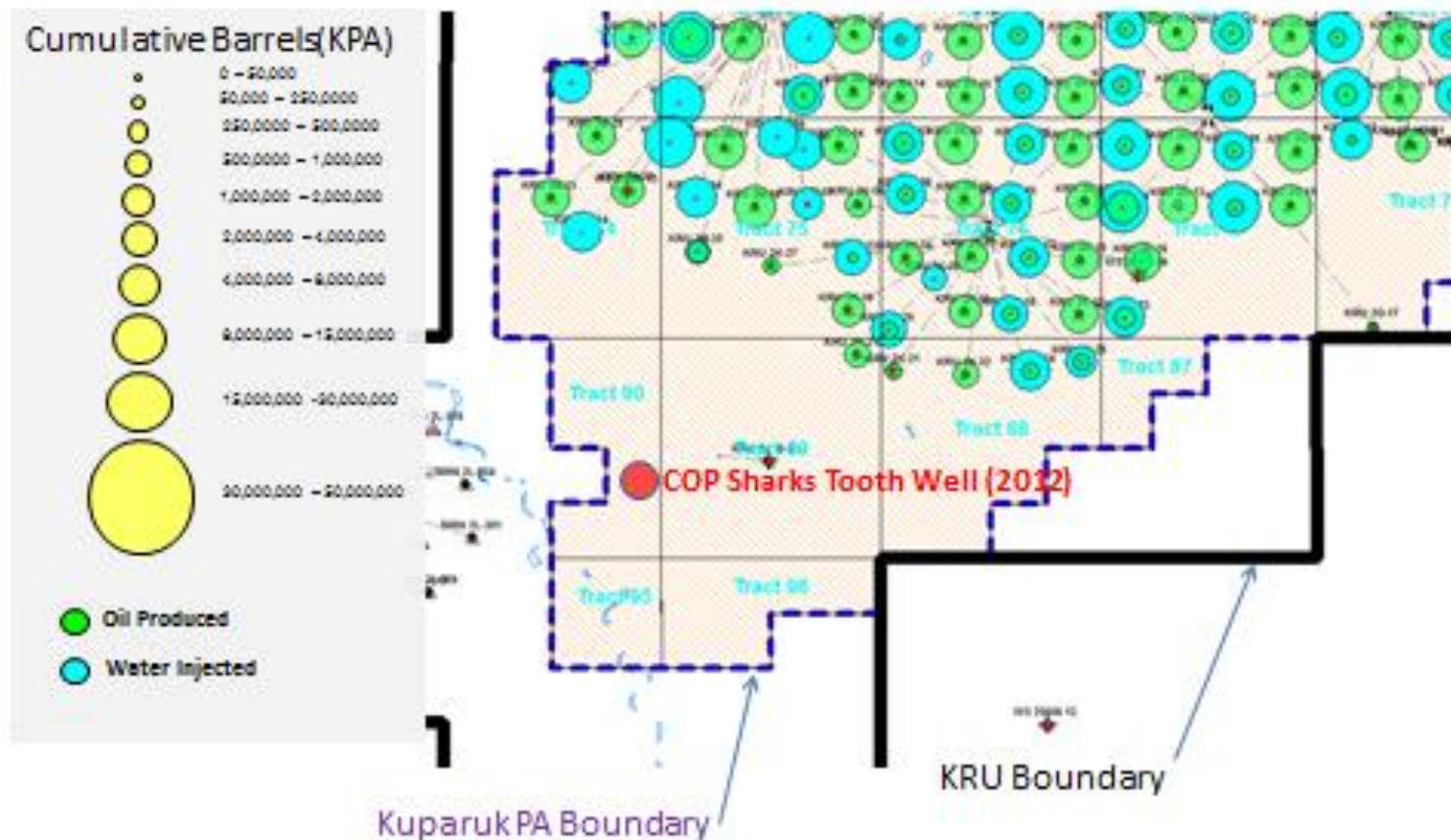
● Oil Produced

● Water Injected



KUPARUK RIVER UNIT (KRU)

Southwest Portion Kuparuk River Unit (KRU)



QUESTIONS?