

Kuparuk River Unit Facility Sharing Agreements

KRU Agreements in place

The KRU has two primary agreements covering facility access and services. The Kuparuk Satellite Facility Sharing Ballot (Ballot 255) provides access to KRU process facilities. The Ballot Agreement Authorizing Non-Unit Sharing of Kuparuk Participating Area Facilities (Ballot 260A) provides access to services and equipment.

Ballot 255 provides the basis for facility access. A full facility access agreement will likely contain this fundamental agreement but will also contain additional details and terms depending on the particular situation.

Facility access or service agreements can be as simple as a basic support service (equipment rental, drill cuttings disposal, camp services, etc.) for an exploration program or as complicated as a cradle-to-grave agreement with the KRU operator handling all drilling, production and operations. Examples of final or complete facility access agreements and service agreements include:

- The Winstar Joinder to the KRU.
- The KRU/Pioneer Infrastructure Sharing Agreement (Ballot 260).
- The Alpine seawater agreement.
- The existing satellite participating areas have adopted Ballot 255 as the basis for facility access.

Some of these facility access agreements are confidential and some are not. Details of commercial terms are always kept confidential. Of particular note, the Winstar Joinder to the KRU along with Ballots 255 and 260A were deliberately put on public record (except for commercial terms) in order to provide transparency and access to the general terms of facility access.

Summary Description of Agreements

Ballot 255

Ballot 255 provides KPA process facility access to non-KPA fields (satellites) within the KRU. This agreement provides for the processing of satellite fluids (oil, water and gas), as well as access to injection water, electricity and some common drillsite operations.

Ballot 255 offers 'modified available capacity access' and does not provide for 'firm capacity access' to the process facilities. This modified available capacity is based on the principle that the best wells will be produced to maximize facilities oil throughput, regardless of ownership. Therefore, assuming that the facilities are operating at full utilization, available capacity for any party is a function of their well stream quality. Third parties pay for this facility access based on their actual utilization of the facilities.

KRU Facility Sharing Agreements

Ballot 255 and the companion Ballot 255A are on public record. Ballot 255 is a fairly easy to understand agreement so it is not necessary go into details concerning its contents. A very high level summary is:

- Satellite owners must provide sufficient and timely information regarding the Satellite plan of development and operation to enable the Unit Operator and KPA Owners to assess the demands and impacts that the Satellite may have on KPA equipment, production and future operations.
- Satellite owners may install and operate their own wells and equipment. Satellite owners are responsible for any and all efforts and direct costs associated with satellite construction, permitting, maintenance, operation, taxes, royalty and abandonment,
- The unit operator is responsible for operating all KPA process facilities as well as controlling the rate of production into the facilities. Either the unit operator or a sub-operator will be responsible for operating satellite equipment
- Fluids must be compatible with KPA equipment. Satellite owners are responsible for any costs to bring Satellite fluids into compatibility.
- In the event of competing demands for process capacity, the unit operator will strive to maximize total oil production through unit facilities. The best wells will be produced, the worst wells will be shut-in or curtailed, regardless of ownership. In the event that KPA production is deferred by this optimization of total oil production, KPA owners will be kept whole and compensated through the backout provisions.
- Satellite owners may propose KPA capacity expansions to meet their production requirements. The KPA and various satellite owners will pay for such capacity expansions in accordance to their relative benefit.
- Satellites pay a capital access fee to compensate KPA owners for investments made to put the process and related facilities in place. This fee is paid on a dollar-per-barrel-of-oil basis.
- The Satellites also pay a fee (on a barrel-of-oil basis) to cover future process facility abandonment costs.
- Satellites pay fees to cover the satellite's share of fluid processing and other common operation costs. These costs are determined yearly and are based on actual costs and production from the previous year. In essence, the KPA and all satellites proportionately share these common costs according to their usage. The fee categories are:
 - Plant Liquid Processing – Paid on the satellite's liquid production (oil plus water), this fee covers costs attributed to liquid processing.

KRU Facility Sharing Agreements

- Plant Gas Processing – Paid on the satellite’s allocated volumes of fuel, flare and shrinkage gas, this fee covers costs attributed to gas processing operations.
 - Common Drillsite – Paid on the satellite’s liquid production (oil plus water), this fee covers common costs attributed to general field operating and maintenance costs and allocated field support costs.
 - Excess Water – Paid on the satellite’s excess water injected (difference between a satellite’s water injection and its water production), this fee covers common costs attributed to the seawater treatment plant, associated pipelines and injection plants.
 - Ad Valorem Tax – Paid on the satellite’s liquid production, this fee covers ad valorem taxes attributable to processing and other common field facilities.
- Satellites compensate the KPA owners for deferred production in the event KPA production is ‘backed-out’ or restricted by satellite production. This so-called ‘backout’ is the amount of oil the KPA could have produced had a satellite not produced minus the amount of KPA oil production with the satellite in production. Backout is calculated according to the methodology described in B255A. Backout is determined monthly and paid in barrels at Pump Station 1 (PS1).
 - An oil quality adjustment is made to account for the differences in the characteristics of KPA and satellite oil. The quality adjustment is determined monthly and paid in barrels at PS1. The quality adjustment for a particular reservoir is defined in B255. If satellite crude is superior to KPA crude, then the satellite receives net barrels from the KPA. If satellite crude is inferior to KPA crude, then the KPA receives net barrels from the satellite.

Ballot 260A

Ballot 260 provides access to a wide range of services on an ad-hoc, as available, if available basis. Some of the key services that may be available are:

- Mobile and non-mobile equipment
- Emergency fire response
- Spill response
- Waste management
- Camp Services
- Materials
- Solid Oily Waste Management