

Prudhoe Bay Unit Facility Sharing Agreements

Agreements

There are three primary categories of facility sharing agreements relating to PBU facilities and services. First, there are a number of agreements that relate to operations of the Lisburne Production Center. Second, there are agreements related to processing PBU satellite production in facilities originally developed to produce the main Prudhoe reservoir ("IPA Facilities"). Third, there is an agreement authorizing third party sharing of certain equipment and services ("IPA Equipment and Services"). The PBU Owners also have entered into agreements that address the use of specific equipment.

A summary of these categories of agreements follows:

a) Lisburne Production Center Agreements

The Lisburne Production Center was developed to process production from the Lisburne Reservoir. In the early 1990s, agreements were developed to address what is called the Greater Pt. McIntyre Area ("GPMA"). These agreements allow the Pt. McIntyre, Niakuk, West Beach and North Prudhoe reservoirs ("Sharing PAs") to be processed through the LPC with Lisburne production, and for sharing between the IPA Owners and the owners of the participating areas within the GPMA of certain support facilities, electrical power, vertical support members, source water and other facilities and services.

b) Facility Sharing Authorization Agreement (Ballot 97-196)

This agreement provides for the development of a Facility Sharing Agreement (FSA) for each satellite field under which production fluids from that satellite could be processed through the use of IPA Production Equipment. There are currently no FSA's with parties external to the Prudhoe Bay Unit.

Owners of a Satellite seeking access to IPA Facilities must provide specific information regarding the plans for development and operation of the Satellite to enable the IPA Owners to evaluate demands and impacts that regular production from the Satellite will have on IPA Production Equipment and Services, field development plans, and production levels. This information includes:

- I. The scope and timing of Satellite development, including location of Satellite well pads and facilities, projected number and timing of Satellite wells to be drilled on each well pad, and identification of specific facilities for which access, modification, use or tie-in is proposed;
- II. Projections of Satellite production to be delivered to IPA Production Equipment, the quantities of "returned" gas (gas lift, fuel or injection) and Satellite Produced Water to be made available by the IPA Owners to the Satellite, all on a year-to-year basis;

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- III. Any desired quantities of electrical power, gas, Make-up Water or other IPA Production Equipment and Services for use by the Satellite; and
- IV. Description of the stratigraphic horizon and areal extent for the portion of the Satellite reservoir proposed for development with compositional descriptions and producing characteristics (e.g. temperatures and pressures) of the anticipated Satellite production.

Based on this information, the IPA Owners may enter into a FSA that will specify appropriate terms and conditions including:

- I. The specific O&M Fee, Capital Access Fee, Abandonment Fee, Backout, and Volume Adjustment Factor (VAF) as well as fees for use of IPA Area Equipment and IPA Services in support of Subsurface Satellite Operations, Additional Processing Operations and Satellite drilling and construction activities, and fees for Make-up Water, additional electrical power or other items.
 - a) The O&M Fee is to reimburse the IPA Owners for the Satellite's proportionate share of the IPA Production Equipment and Services Producing Costs for base processing operations.
 - b) The Capital Access Fee is to reimburse the IPA Owners for investment in IPA Production Equipment.
 - c) The Abandonment Fee is to reimburse the IPA Owners for a Satellite's proportionate share of the estimated future abandonment costs for IPA Production Equipment accessed by that Satellite.
 - d) Backout is the estimated volume of IPA oil that cannot be produced during a specified time period because of the processing of Satellite Produced Fluids through IPA Production Equipment. The Satellite is responsible for keeping the IPA whole on deferred production by reimbursing the IPA for backout with a volume of Satellite production.
 - e) VAF is a volume adjustment to a Satellite's oil volume that reflects, among other things, the differences in physical quality, compositional differences and handling considerations of Produced Fluids from the IPA and Satellites.
- II. Incorporation of specific terms and conditions which address any issues raised by the information provided above including the commercial terms required for any Satellite Modification, Joint Equipment or additional services requested.
- III. Scope and timing of development (including all Satellite Modification and Joint Equipment requirements), range of rates for Satellite Production and reservoir boundaries for which use of IPA Production Equipment and Services will be allowed.

c) Ballot Agreement Authorizing Use of IPA Equipment and IPA Services (Ballot 98-202)

This agreement authorizes the use of certain IPA Area Equipment and Services (not including oil and gas processing equipment) by other Units/Participating Areas (Receiving Entities), establishes terms of compensation for use of IPA Area Equipment and Services, and defines the allocation of liability between IPA Owners and the Receiving Entities with respect to the use of IPA Equipment and Services.

IPA Equipment and Services are intended to be for incidental use of Receiving Entities. Use of IPA Area Equipment and Services for other than incidental use would be subject to a separate agreement negotiated on a case-by-case basis. *(Incidental Use means use of equipment and services by a Receiving Entity that is in excess of the IPA Owners' needs at the time of such use and that is insubstantial when compared to the IPA Owners' use of such equipment or services.)*

Equipment and Services include:

- A) Mobile & Non-Mobile Equipment
- B) Airport Shuttle Bus Services
- C) Sewage Disposal
- D) Production Lab
- E) Wellhead Services
- F) Hot Water Plant
- G) West Dock Staging Area
- H) Drum Disposal
- I) Halon Support Services
- J) Camp Services
- K) Projects & Construction
- L) Overhaul & Rotating Equipment
- M) Scheurle Trailer
- N) Investment Recovery
- O) Flow Measurement
- P) Miscellaneous Services
- Q) Mukluk Pad
- R) CTD Work Platform
- S) Security Checkpoint

d) Grind and Inject Plant Operating Agreement (IPA Ballot 97-201)

This agreement allows authorized parties to use the Grind and Inject Plant to dispose of drilling waste for a fee.