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IN THE SUPERIOR COURT FOR THE STATE OF ALASKA
FIRST JUDICIAL DISTRICT AT JUNEAU

STATE OF ALASKA,

Plaintiff,

COMMISSIONER OF NATURAL RESOURCES, STATE OF ALASKA, and DIRECTOR OF THE DIVISION OF LANDS, STATE OF ALASKA,

Involuntary Plaintiffs,

v.

AMERADA HESS CORPORATION; ATLANTIC RICHFIELD COMPANY; BP ALASKA INC.; BP ALASKA EXPLORATION, INC.; EXXON CORPORATION; GETTY OIL COMPANY; HUNT INDUSTRIES; CAROLINE HUNT TRUST ESTATE; LAMAR HUNT TRUST ESTATE; WILLIAM HERBERT HUNT TRUST ESTATE; N.B. HUNT; THE LOUISIANA LAND AND EXPLORATION) COMPANY; MARATHON OIL COMPANY; MOBIL OIL CORPORATION; SOHIO PETROLEUM COMPANY; CHEVRON U.S.A., INC.; PLACID OIL COMPANY; and PHILLIPS PETROLEUM COMPANY,

Defendants.

FILED IN THE TRIAL COURTS
State of Alaska, First District
at Juneau

AUG 13 1980

Barbara A. Howe, Clerk
Deputy

No. 77-847 Civil

FINDINGS OF FACT AND CONCLUSIONS OF LAW
RE APPROVAL OF SETTLEMENT AGREEMENT

The parties to this action have filed a Stipulation and Joint Motion to Approve Settlement Agreement and Enter Final Judgment in this action. It is appropriate for this Court, being fully advised in the premises, to set forth its findings of fact and conclusions of law upon which its judgment is based.

FINDINGS OF FACT

1. Plaintiff State of Alaska, by its Complaint for Declaratory Judgment filed herein on September 2, 1977, and its Amended Complaint for Declaratory Judgment filed herein on November 1, 1977, seeks a judgment declaring the rights and duties of the plaintiff and the above-named defendants (hereinafter the "Lessees") under AS 38.05.180(a), AS 31.05.110 and the oil and gas leases issued to the Lessees

1 by the State of Alaska, with respect to "in value" royalty
2 payments to the State of Alaska on oil produced from the
3 lands governed by the Prudhoe Bay Unit Agreement (here-
4 inafter the "Unit Area").

5 2. The Lessees, by their Consolidated Answer and
6 Counterclaim filed on October 13, 1977, joined the Commis-
7 sioner of Natural Resources and the Director of the Division
8 of Lands as Involuntary Plaintiffs and seek a judgment
9 declaring the rights and duties of the parties with respect
10 to both "in value" and "in kind" royalties to the State of
11 Alaska on oil and on gas produced from the Unit Area.

12 3. Thereafter, the Plaintiff and Involuntary Plain-
13 tiffs (hereinafter the "State") filed a motion for partial
14 summary judgment. The Lessees opposed that motion and filed
15 a cross-motion for partial summary judgment. The State then
16 filed a cross-motion for partial summary judgment in order
17 to include the additional issues raised in Lessees' motion.
18 Both the State and the Lessees filed reply memoranda and an
19 amicus curiae brief was filed with leave of the Court by the
20 Arctic Slope Regional Corporation in support of the State's
21 motion and cross-motion for partial summary judgment and in
22 opposition to the Lessees' cross-motion for partial summary
23 judgment.

24 4. On April 6, 1979, this Court issued a memorandum
25 opinion addressing issues raised by the various motions and
26 cross-motions for partial summary judgment. The Court has
27 not entered any order or judgment disposing of any of said
28 motions or cross-motions.

29 5. At the Court's direction, the State, on April 25,
30 1979, submitted a proposed order of partial summary judg-
31 ment. Prior to the expiration of the time within which the
32

1 Lessees had the right to respond to or object to the pro-
2 posed order, the Lessees requested and the Court granted the
3 Lessees additional time to respond. Thereafter, the State
4 and the Lessees stipulated from time to time, with the
5 knowledge and approval of the Court, that the Lessees' time
6 to respond or object be further extended because the parties
7 were attempting to negotiate a settlement. In light of the
8 successful settlement negotiations, the State has withdrawn
9 its proposed order and the parties have substituted therefor
10 a proposed form of Final Judgment pursuant to Civil Rule
11 54(b).

12 6. The State and Lessees have now reported to the
13 Court that they have agreed upon a settlement and have filed
14 with the Court a Stipulation and Joint Motion to Approve
15 Settlement Agreement and Enter Final Judgment (hereinafter
16 the "Joint Motion").

17 7. A settlement agreement (hereinafter the "Settle-
18 ment Agreement"), submitted to the Court as Exhibit A to the
19 proposed Final Judgment, has been duly executed on behalf of
20 the State of Alaska by the Attorney General, by the Commis-
21 sioner of the Department of Natural Resources, and by the
22 Director of the Division of Lands, and has been executed by
23 or on behalf of each of the Lessees.

24 8. The Court has reviewed the Joint Motion, the
25 Settlement Agreement, the pleadings, the briefs, and other
26 documents on file in this action. The Settlement Agreement
27 specifies, among other things, the extent to which the State
28 is to bear a share of certain costs incurred by Lessees with
29 respect to the State's royalty oil and royalty gas, whether
30 taken in kind or in value, from lands in the vicinity of
31

1 Prudhoe Bay. Based upon its review of the record in this
2 case, the Court finds that the Settlement Agreement is fair,
3 just and equitable; that it constitutes a reasonable com-
4 promise of issues raised by the pleadings in this action;
5 and that the settlement is consistent with the best in-
6 terests of the citizens of the State.

7 9. The issues settled by the Settlement Agreement
8 have been the subject of continuing controversy and dis-
9 agreement for more than a decade as a result of disputes
10 regarding various provisions of oil and gas leases issued by
11 the State under AS 38.05.180(a). That statute was recently
12 amended so as to avoid such controversies with respect to
13 future State oil and gas leases. The issues involved in
14 this action arose, however, with respect to leases issued
15 under the former statute. The Settlement Agreement resolves
16 these issues, with respect to leases issued to the Lessees
17 covering lands in the vicinity of Prudhoe Bay, in a manner
18 which will significantly increase the sums received by the
19 State of Alaska on production from such lands, and provides
20 for substantial lump sum cash payments by most of the
21 Lessees to the State on account of past production from such
22 lands.

23 10. In the absence of a settlement by the parties,
24 further protracted proceedings would be required to resolve
25 the issues settled by the Settlement Agreement. Final
26 resolution would almost certainly involve appellate review
27 of any decision of this Court. The ultimate outcome of this
28 litigation would thus remain in substantial doubt for some
29 time to come, during which time all of the parties would
30 continue to incur significant litigation expenses. More
31
32

1 importantly, these unsettled issues would continue to hamper
2 the State in its efforts to plan and contract for the long-
3 term disposition of its natural resources in the manner most
4 beneficial to the people of this State.

5 11. AS 38.05.182, as recently amended, directs that
6 oil and gas royalties shall be taken "in kind" rather than
7 "in value" unless the Commissioner of Natural Resources
8 determines that taking "in value" would be in the best
9 interest of the State. Exercise by the State of its right
10 to take its royalty share "in kind" is facilitated by the
11 Settlement Agreement.

12 12. For these and other reasons, the Commissioner of
13 Natural Resources has properly and reasonably determined,
14 pursuant to the powers and authority delegated to him under
15 the Alaska Land Act (including, but not limited to, AS
16 38.05.180(p)), that the entry by the State into the Settle-
17 ment Agreement upon the terms and conditions set forth
18 therein is necessary and proper to secure the proper pro-
19 tection of the public interest and will best serve the
20 interests of the State. The Court concurs in this finding
21 by the Commissioner.

22 13. The Court finds that prompt implementation of the
23 Settlement Agreement is in the best interest of the parties
24 and that there is no just reason for delaying entry of a
25 final judgment as requested by the parties.

26 14. The Court further finds in all respects as set
27 forth in the Conclusions of Law following these Findings of
28 Fact.

29
30 CONCLUSIONS OF LAW

31 Having made the foregoing findings of fact, the Court
32

1 now sets forth its conclusions of law.

2 1. The Settlement Agreement submitted by the parties
3 is in proper form, has been duly executed by the appropriate
4 officers of the State and by or on behalf of each of the
5 Lessees, and has been approved by the Attorney General for
6 the State of Alaska. The Attorney General has the power and
7 authority under AS 09.50.300, AS 22.20.050 and AS 44.80.100
8 as well as under common law to bring, defend, compromise or
9 settle any civil action where the State or any of its de-
10 partments or officials becomes a party to litigation.

11 2. The terms of the Settlement Agreement are con-
12 sistent with the constitution and statutes of the State of
13 Alaska, and are binding upon and enforceable by the parties
14 thereto. The Court concludes that the Settlement Agreement
15 should be and hereby is approved by this Court.

16 3. There is no just reason for delay in entering a
17 final judgment as to the issues settled by the Settlement
18 Agreement.

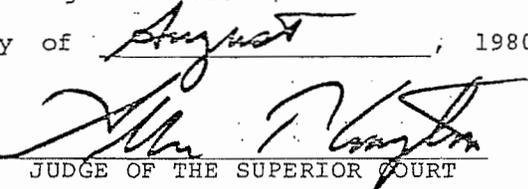
19 4. The parties expressly have agreed to reserve for
20 further proceedings before this Court the issue of how, in
21 determining the value of royalty oil, a Lessee is to compute
22 the value of said oil at the custody transfer meters into
23 TAPS at Pump Station No. 1 (from which value the Field Cost
24 Allowance, as defined in the Settlement Agreement, may be
25 deducted by a Lessee in making royalty settlement for said
26 oil).

27 5. All other claims and matters raised by the
28 pleadings in this action, including those issues specified
29 in Section 4.14 of the Settlement Agreement, which are not
30 settled by the Settlement Agreement or expressly reserved as
31

1 set forth in paragraph 4 hereof should be dismissed without
2 prejudice.

3 6. The Court further concludes in all respects as set
4 forth in the foregoing findings of fact.

5 DATED this 13 day of August, 1980.

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8 JUDGE OF THE SUPERIOR COURT
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23 CERTIFICATION

24 The undersigned certifies that on the 14th day of
25 August, 1980, a true copy of this
26 document was served on the following attorneys:

27 Nelson Gordon, Kellison
B. Royell - Richard Denty

28 By James R. Martin
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IN THE SUPERIOR COURT FOR THE STATE OF ALASKA
FIRST JUDICIAL DISTRICT AT JUNEAU

STATE OF ALASKA,)
)
Plaintiff,)
)
COMMISSIONER OF NATURAL RESOURCES,)
and DIRECTOR OF THE DIVISION OF)
LANDS, STATE OF ALASKA,)
)
Involuntary Plaintiffs,)
)
vs.)
)
AMERADA HESS CORPORATION; ATLANTIC)
RICHFIELD COMPANY; BP ALASKA INC.;)
BP ALASKA EXPLORATION INC.; EXXON)
CORPORATION; GETTY OIL COMPANY;)
HUNT INDUSTRIES; CAROLINE HUNT)
TRUST ESTATE; LAMAR HUNT TRUST)
ESTATE; WILLIAM HERBERT HUNT TRUST)
ESTATE; N. B. HUNT; THE LOUISIANA)
LAND AND EXPLORATION COMPANY;)
MARATHON OIL COMPANY; MOBIL OIL)
CORPORATION; SOHIO PETROLEUM)
COMPANY; CHEVRON U.S.A. INC.;)
PLACID OIL COMPANY; and PHILLIPS)
PETROLEUM COMPANY,)
)
Defendants.)

Civil Action
No. 77-847

SETTLEMENT AGREEMENT

RECEIVED

EXHIBIT A

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	Applies	F1

1 THIS AGREEMENT, dated April 1, 1980, for reference
2 purposes only, entered into by and among the STATE OF ALASKA,
3 acting by and through its Attorney General under the authority
4 conferred by AS 44.23.020, AS 09.50.300, AS 22.20.050(a) and
5 common law, the COMMISSIONER OF NATURAL RESOURCES, STATE OF ALASKA
6 (the "Commissioner") and the DIRECTOR OF THE DIVISION OF LANDS,
7 STATE OF ALASKA (the "Director") (the foregoing parties being
8 hereinafter collectively referred to as the "State" except where
9 otherwise indicated), and each of the following defendants in
10 the above-entitled action:

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- AMERADA HESS CORPORATION,
- ATLANTIC RICHFIELD COMPANY,
- BP ALASKA INC.,
- BP ALASKA EXPLORATION INC.,
- EXXON CORPORATION,
- GETTY OIL COMPANY,
- HUNT INDUSTRIES,
- CAROLINE HUNT TRUST ESTATE,
- LAMAR HUNT TRUST ESTATE,
- WILLIAM HERBERT HUNT TRUST ESTATE,
- N. B. HUNT,

1 THE LOUISIANA LAND AND EXPLORATION COMPANY,
2
3 MARATHON OIL COMPANY,
4
5 MOBIL OIL CORPORATION,
6
7 SOHIO ALASKA PETROLEUM COMPANY, formerly known as
8 Sohio Petroleum Company,
9
10 CHEVRON U.S.A. INC.,
11
12 PLACID OIL COMPANY,
13
14 and
15
16 PHILLIPS PETROLEUM COMPANY

17
18 (said defendants being hereinafter referred to as the "Lessees"
19 except where otherwise indicated),
20

21 W I T N E S S E T H
22

23 THAT, WHEREAS, the Lessees are the present holders of
24 certain oil and gas leases (said leases being hereinafter referred
25 to as the "Leases") issued by the State covering those certain
26 lands, in the vicinity of Prudhoe Bay, more particularly described
27 in Exhibit A to the Prudhoe Bay Unit Agreement (said agreement,
28 as amended from time to time, being hereinafter referred to as
29 the "Unit Agreement"); and
30
31
32

1 WHEREAS, the Lessees entered into the Unit Agreement
2 effective as of April 1, 1977, with the agreement and approval
3 of the State; and

4
5 WHEREAS, several disputes have arisen between the State
6 and the Lessees concerning their respective rights and duties
7 under the provisions of AS 38.05.180(a), AS 31.05.110, the Leases
8 and the Unit Agreement; and

9
10 WHEREAS, the State, on September 2, 1977, commenced the
11 above-captioned action in the Superior Court for the State of
12 Alaska, First Judicial District at Juneau (hereinafter, the
13 "Court"), seeking a judgment declaring the rights and duties
14 of the parties with respect to "in value" royalty payments to
15 the State on oil produced from lands governed by the Unit Agree-
16 ment; and

17
18 WHEREAS, the Lessees, on October 13, 1977, answered
19 the State's complaint and filed a counterclaim seeking a judg-
20 ment declaring the rights and duties of the parties with respect
21 to both "in value" and "in kind" royalty payments to the State
22 on both oil and gas produced from lands governed by the Unit
23 Agreement; and

24
25 WHEREAS, the State and the Lessees, recognizing that
26 there is substantial doubt as to the ultimate outcome of this
27 litigation, and considering the many difficulties and delays
28 inherent in this highly complex litigation, agree that the continu-
29 ing economic uncertainty, great expense and other detriment to
30 all parties which would result from the prolongation of this
31 litigation are undesirable; and

32

1 WHEREAS, the State and each of the Lessees have there-
2 fore concluded that a settlement of this litigation in the manner
3 and upon the terms and conditions hereinafter set forth is in
4 the best interests of all parties; and

5
6 WHEREAS, the Commissioner has determined that the settle-
7 ment of this litigation upon the terms and conditions set forth
8 in this Agreement is necessary and proper to secure the proper
9 protection of the public interest by, among other things, facili-
10 tating the exercise by the State of its option under the Leases
11 and under the Unit Agreement to take its royalty "in kind."

12
13 NOW, THEREFORE, in consideration of the foregoing and
14 in consideration of the various covenants hereinafter contained,
15 the State and each of the Lessees agree and covenant as follows:

16
17 ARTICLE 1: DEFINITIONS

18
19 As used in this Agreement:

20
21 1.1 Previously Defined Terms. Each of the terms "Commis-
22 sioner," "Director," "State," "Lessees," "Leases," "Unit Agreement"
23 and "Court" shall have the meaning given to it on the preceding
24 pages.

25
26 1.2 Effective Date shall have the meaning given to
27 it in Section 5.2.

28
29 1.3 Field Cost Allowance shall mean:

30
31 (a) with respect to Royalty Oil, the amount per barrel
32 thereof determined in accordance with Section 2.6.

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(b) with respect to Royalty Gas, the amount per MCF thereof determined in accordance with Section 3.7.

1.4 Interim PPI for a particular year shall have the meaning given to it in Section 1.5.

1.5 PPI for a particular calendar month shall mean the Producer Price Index for Industrial Commodities (or its successor index) for said month as determined and reported by the U.S. Department of Labor, or by such other agency of the United States government as may, from time to time, determine and report such index if the U.S. Department of Labor ceases to do so. If the method by which the PPI is determined or the base thereof is changed, the successor index or base shall, to the extent practicable, be correlated with the previously applicable index or base so that the amounts determined by the formulae hereinafter set forth shall not be changed by reason of the substitution of such successor index or base. References herein to the PPI for a particular year shall mean the PPI for the month of December of that year. Unless otherwise specified, all calculations hereunder which require use of the PPI shall be made using the PPI as finally determined and reported; provided, however, that if the PPI for a particular year has not been finally determined and reported prior to the date on which a particular calculation pursuant to Subsection 2.6.2, Subsection 3.7.2, or Subsection 3.8.3 must be made, then such calculation shall be made, and the amounts of all payments or deductions based on such calculation shall be determined, using the PPI for said year as then most recently determined and reported (such index being hereinafter referred to as the "Interim PPI" for said year), subject, however, to the provisions of Sections 2.7 and 3.14. The parties agree that the Producer Price Index for Industrial Commodities (1967 = 100.0 base) for June 1977 is 194.7.

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1.6 RIK Gas shall mean any Royalty Gas taken by the State "in kind."

1.7 RIK Oil shall mean any Royalty Oil taken by the State "in kind."

1.8 RIV Gas shall mean any Royalty Gas for which the State is to be compensated "in value."

1.9 RIV Oil shall mean any Royalty Oil for which the State is to be compensated "in value."

1.10 Royalty Gas shall mean any gas, other than gas which is conditioned in the Field Fuel Gas Unit (a part of Shared Group 19, as defined in Exhibit 32A of the Prudhoe Bay Unit Operating Agreement), included in the State's royalty share of gas produced from the Unit Area, regardless of the condition or form (e.g., wet gas, sales quality residue gas, gas plant liquids, et cetera) in which said gas may exist at the point of taking, in the case of RIK Gas, or at the Intermediate Valuation Point (as defined in Subsection 3.2.15), in the case of RIV Gas.

1.11 Royalty Oil shall mean any oil included in the State's royalty share of oil produced from the Unit Area, regardless of the condition or form in which said oil may exist at the point of taking, in the case of RIK Oil, or at the LACT Meter (as defined in Subsection 2.2.2), in the case of RIV Oil.

1.12 TAPS shall mean the Trans Alaska Pipeline System.

1.13 Unit Area shall mean the land described by Tracts in Exhibit A to the Unit Agreement and shown on Exhibit B to the

1 Unit Agreement as of the Effective Date of this Agreement and, in
2 addition, all other land to which the Unit Agreement may hereaf'
3 be extended as therein provided (it being expressly understood
4 and agreed that the term "Unit Area" shall encompass, at any par-
5 ticular time, all land as to which the Unit Agreement has previously
6 become effective, regardless of whether the Unit Agreement then
7 remains effective as to such land).

8 1.14 Upstream Cost Allowance shall mean the amount
9 per MCF of Royalty Gas determined in accordance with Section 3.6.
10

11 1.15 Year Of Production shall mean, with respect to
12 particular oil or gas, the calendar year during which the volume
13 of said oil or gas is measured for royalty purposes.
14

15 ARTICLE 2: SETTLEMENT OF OIL ROYALTY ISSUES
16

17 2.1 Scope. The provisions of this Article are appli-
18 cable to all royalties accruing to the State on oil produced
19 from the Unit Area on or after June 20, 1977, the date of first
20 production into TAPS.
21

22 2.2 Definitions. As used in this Article and Article 4:
23

24 2.2.1 Field Costs shall mean, with respect to partic-
25 ular Royalty Oil, any and all costs (including, without
26 limiting the generality of the foregoing, gathering, separa-
27 tion, cleaning, dehydration and other field handling costs)
28 incurred by the Lessees with respect to such oil upstream
29 of the LACT Meter for such oil, other than costs (including,
30 but not limited to, chilling costs) incurred by the Lessees
31 with respect to such oil downstream of a Separation Facility
32

(as defined in the Prudhoe Bay Unit Operating Agreement)
1 in order to blend with such oil any liquid hydrocarbons
2 extracted from gas for the purpose of transporting said
3 gas liquids off the North Slope of Alaska with said oil
4 (the latter type of costs being hereinafter referred to
5 as "Oil-NGL Blending Costs").
6

7 2.2.2 LACT Meter shall mean, with respect to partic-
8 ular oil, the particular meter at which the volume of said
9 oil is initially measured for royalty purposes. (At the
10 date of this Agreement, with respect to all oil other than
11 that taken by a Lessee at the Arco/Exxon Prudhoe Bay Crude
12 Oil Topping Plant, "LACT Meter" means the custody transfer
13 meters into TAPS.)
14

15 2.2.3 LACT Meter Value shall mean, with respect to
16 particular Royalty Oil, the value of said oil at the LACT
17 meters into TAPS. With respect to particular Royalty Oil
18 measured for royalty purposes at a LACT Meter other than
19 a LACT meter into TAPS, LACT Meter Value shall mean the
20 value at the LACT meters into TAPS of oil of like grade
21 and gravity (e.g., with respect to Royalty Oil taken by
22 a Lessee at the Arco/Exxon Prudhoe Bay Crude Oil Topping
23 Plant, the value at the LACT meters into TAPS of oil of
24 the same grade and gravity as oil at the inlet LACT meter
25 to said plant).
26

27 2.3 Settled RIK Oil Taking Issue. As used herein, the
28 term "Settled RIK Oil Taking Issue" shall mean the issue of where
29 and in what condition the Lessees are obligated to deliver RIK Oil
30 to the State. In full and final settlement of the respective
31 claims and contentions of the State and each of the Lessees with
32

1 respect to the Settled RIK Oil Taking Issue, the State and each
2 of the Lessees agree that all RIK Oil taken as royalty from a
3 particular Lessee at a particular time shall be delivered to the
4 State at the custody transfer meters into TAPS in the same condition
5 as oil generally available for taking or other disposition by said
6 Lessee at said point at the time at which said RIK Oil is taken
7 by the State.

8 2.4 Settled Upstream RIK Oil Issue. As used herein,
9 the term "Settled Upstream RIK Oil Issue" shall mean the issue
10 of whether, with respect to RIK Oil taken by the State as royalty
11 from a particular Lessee, the State is liable to each Lessee for
12 reimbursement of all or any portion of the Field Costs incurred
13 by said Lessee with respect to said oil. In full and final settle-
14 ment of the respective claims and contentions of the State and
15 each of the Lessees with respect to the Settled Upstream RIK Oil
16 Issue, the State and each of the Lessees agree that with respect
17 to each barrel of RIK Oil taken as royalty from a particular Les-
18 see the State shall be liable to that Lessee for an amount equal
19 to the Field Cost Allowance with respect to said oil, determined
20 in accordance with Section 2.6.

21
22 2.5 Settled Upstream RIV Oil Issue. As used herein,
23 the term "Settled Upstream RIV Oil Issue" shall mean the issue
24 of whether, in computing the value of Royalty Oil for the purpose
25 of making royalty payments "in value" on oil produced from the
26 Unit Area, each Lessee may deduct from the LACT Meter Value of
27 said oil all or any portion of the Field Costs incurred by said
28 Lessee with respect to said oil. In full and final settlement
29 of the respective claims and contentions of the State and each
30 of the Lessees with respect to the Settled Upstream RIV Oil Issue,
31 the State and each of the Lessees agree that, in computing the
32

value for royalty purposes of each barrel of RIV Oil for which
1 a particular Lessee makes settlement; said Lessee may deduct
2 from the LACT Meter Value of said oil an amount equal to the
3 Field Cost Allowance with respect to said oil, determined in
4 accordance with Section 2.6.

5
6 2.6 Field Cost Allowance for Royalty Oil. Each Lessee
7 shall be entitled to a Field Cost Allowance with respect to Royalty
8 Oil, determined as follows:

9
10 2.6.1 Pre-1980. With respect to Royalty Oil measured
11 for royalty purposes on or before December 31, 1979, the
12 Field Cost Allowance shall be 42 cents per barrel.

13
14 2.6.2 Thereafter. With respect to Royalty Oil measured
15 for royalty purposes on or after January 1, 1980, the Field
16 Cost Allowance shall be the amount determined by using the
17 following formula:

18
19
$$\text{Field Cost Allowance per barrel} = 42 \text{ cents} \times \frac{\text{PPI for the year prior to the Year Of Production}}{\text{PPI for June 1977.}}$$

20
21
22
23 2.7 Payment of PPI Adjustment Differential. If, in
24 accordance with Section 1.5, the Field Cost Allowance for particular
25 Royalty Oil is calculated using the Interim PPI for the year
26 prior to the Year Of Production for said oil and, as a result,
27 any Lessee:

28
29 (i) receives an amount pursuant to Section 2.4 with respect
30 to said oil, if said oil is RIK Oil, or
31
32

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Co.	DOL	Co.	
Dept.		Phone #	262-8796
Fax #	279-8644	Fax #	

(ii) deducts an amount pursuant to Section 2.5 with respect to said oil, if said oil is RIV Oil

(such amount so received, if RIK Oil, or deducted, if RIV Oil, being referred to in this Section as the "Interim Amount" for said oil), which amount is greater than or less than the amount that would have been so received or deducted by said Lessee with respect to said oil had said allowance been calculated using the PPI for said year as finally determined and reported (such amount calculated using said finally determined PPI being referred to in this Section as the "Redetermined Amount" for said oil), then:

(a) Refund to State. If the Interim Amount received or deducted with respect to said oil is greater than the Redetermined Amount for said oil, said Lessee shall pay to the State, within sixty days after the PPI for said year is finally determined and reported, an amount equal to the difference between said Interim Amount and said Redetermined Amount.

(b) Payment of Balance Due Lessee. If the Interim Amount deducted or received with respect to said oil is less than the Redetermined Amount for said oil, the State shall pay to said Lessee an amount equal to the difference between said Redetermined Amount and said Interim Amount. Such payment shall be made promptly (within sixty days, if possible) after receipt by the State of said Lessee's invoice therefor.

2.8 Payment of Pre-Effective Date Oil Royalties Differential. To the extent that any Lessee, prior to the Effective Date, has taken a greater or lesser deduction in computing

the value of particular RIV Oil, or has received a greater or
1 lesser amount as compensation for Field Costs incurred with respect
2 to particular RIK Oil, than the Field Cost Allowance for such
3 oil determined in accordance with Section 2.6, such Lessee, in
4 the case of a greater deduction or amount, or the State, in the
5 case of a lesser deduction or amount, shall pay the difference
6 to the party entitled thereto, together with interest thereon,
7 computed with respect to said oil from the last day of the calendar
8 month following the calendar month during which said oil was
9 measured for royalty purposes until the date said difference
10 is paid, at the rate of eight percent (8%) per annum (which the
11 parties agree is the legal rate of prejudgment and post-judgment
12 interest to which the prevailing party would have been entitled
13 had the above entitled action been litigated to its conclusion).
14 Each Lessee from whom the State is entitled to receive payment
15 pursuant to this Section shall pay such sum to the State within
16 sixty days after the Effective Date, such payment to be made
17 by wire transfer if in excess of \$50,000. Any obligation of
18 the State to make payment to any Lessee pursuant to this Section
19 shall be satisfied by offsetting the amount owed to said Lessee
20 by the State against amounts then or thereafter due from said
21 Lessee to the State as royalty on RIV Oil; provided, however,
22 that any amount not so offset within six months after the Ef-
23 fective Date shall be paid to said Lessee by the State promptly
24 (within thirty days, if possible) after receipt by the State
25 of an invoice therefor.

26
27 ARTICLE 3: SETTLEMENT OF GAS ROYALTY ISSUES

28
29 3.1 Scope. The provisions of this Article are appli-
30 able to all royalties accruing to the State on gas produced from
31 the Unit Area and measured for royalty purposes after Major Gas

32

1 sale other than royalties, if any, on gas which is conditioned
2 in the Field Fuel Gas Unit (a part of Shared Group 19, as defined
3 in Exhibit 32A of the Unit Operating Agreement).

4 3.2 Definitions. As used in this Article, Article 4
5 and in the Exhibits to this Agreement:

6
7 3.2.1 Affiliate of a particular Lessee shall mean any
8 company that is owned or controlled by that Lessee. For
9 the purpose of this definition, ownership or control of
10 any company exists if fifty percent (50%) or more of the
11 stock of such company that has the right to vote for direc-
12 tors is owned or controlled, directly or indirectly, by the
13 particular Lessee. The stock owned or controlled by a Lessee
14 shall be deemed to include all stock owned or controlled,
15 directly or indirectly, by any other company that is owned
16 or controlled by that Lessee. Affiliate of a particular
17 Lessee also includes any parent company that owns or controls
18 directly or indirectly, fifty percent (50%) or more of the
19 stock having the right to vote for directors of such Lessee,
20 and any company of which said parent company owns or controls,
21 directly or indirectly, more than fifty percent (50%) of
22 the stock having the right to vote for directors of such
23 company.

24
25 3.2.2 Base Amount shall mean, with respect to a particular
26 Gas Conditioning Plant, the amount per MCF of Royalty Gas
27 determined in accordance with Subsection 3.8.2 for said plant.

28
29 3.2.3 Base Period shall mean, with respect to a particular
30 Gas Conditioning Plant, the calendar year following the
31 Initial Period for said plant.
32

Reconcile w/ 10% in
AGIA

1 3.2.4 Calculated Conditioning Cost shall mean, with
2 respect to a particular Gas Conditioning Plant and particu-
3 lar Royalty Gas, the amount per MCF of said gas determined
4 in accordance with Section 3.8 for said plant and gas.

5 3.2.5 Conditioning (or "to Condition," "to cause to
6 be Conditioned," et cetera) shall refer to the conditioning
7 or treating of gas to meet sales gas specifications of a
8 major gas pipeline for transportation off the North Slope
9 of Alaska, the disposal of byproducts of such conditioning
10 or treating, and any transportation of conditioned gas to
11 said pipeline. Conditioning shall include, without limiting
12 the generality of the foregoing, hydrocarbon dewpoint control,
13 NGL fractionation, water dewpoint control, CO₂ removal,
14 compression and chilling; but shall include neither (i)
15 any conditioning or treating which occurs in a Separation
16 Facility (as defined in the Unit Operating Agreement), nor
17 (ii) the blending, with oil, of liquid hydrocarbons extracted
18 from gas for the purpose of transporting said gas liquids
19 off the North Slope of Alaska with such oil. If part, but
20 not all, of the process of Conditioning occurs in a particular
21 Gas Conditioning Plant, the term "Conditioning," with respect
22 to that plant, refers to the portion of the entire Conditioning
23 process that occurs in said plant (including the disposal
24 of byproducts therefrom, whether or not such disposal occurs
25 in said plant).

26
27 3.2.6 Divided Plant shall have the meaning given to
28 it in Subsection 3.9.1.

29
30 3.2.7 Downstream Conditioning Allowance shall mean,
31 with respect to a particular Lessee, Gas Conditioning Plant
32

1 and calendar month, the amount per MCF of Royalty Gas deter-
2 mined in accordance with Subsection 3.11.2 for said Lessee
3 plant and month.

4 3.2.8 Effective Rate Of Interest for a specified calendar
5 month shall mean a monthly rate of interest equal to one
6 hundred twenty-five percent (125%) of one-twelfth of the
7 Citibank, N.A. (or its successors) annual base interest rate
8 in effect for substantial, responsible commercial borrowers
9 (commonly referred to as the "prime rate") on the first
10 day of such month. Effective Rate Of Interest for a period
11 longer than one month shall mean the product of (i) the
12 arithmetic average of the Effective Rate Of Interest for
13 each calendar month occurring during said period, multiplied
14 by (ii) the number of calendar months in said period.

15
16 3.2.9 Field Costs shall mean, with respect to partic-
17 ular Royalty Gas, any and all costs (including, without
18 limiting the generality of the foregoing, gathering, separa-
19 tion, cleaning, dehydration, compression and other field
20 handling costs) incurred by the Lessees with respect to
21 such gas upstream of the Intermediate Valuation Point for
22 such gas, in the case of RIV Gas, and upstream of the point
23 of taking, in the case of RIK Gas, other than (i) costs
24 incurred by the Lessees in Conditioning such gas, and (ii)
25 costs incurred by the Lessees with respect to such gas in
26 an extraction plant, the primary purpose of which is to
27 extract liquid hydrocarbons from gas that is injected back
28 into any formation underlying the Unit Area (such costs
29 incurred in such a plant being hereinafter referred to as
30 "Cycling Plant Costs").
31
32

OK?
Rate w/ Fed.
125% prime?

cut
12-1-82

1 3.2.10 Gas Conditioning Plant shall mean an assemblage
2 of facilities, located in or near the Unit Area and owned in
3 common by one or more persons, which facilities are designed
4 or used (i) to Condition gas produced from the Unit Area, or
5 (ii) to support, directly or indirectly, the construction or
6 operations of facilities designed or used to Condition such
7 gas; provided, however, that in the case of a Unit Plant,
8 the term "Gas Conditioning Plant" shall not include Support
9 Facilities. If any gas produced from the Unit Area is Condi-
10 tioned in one such assemblage prior to further Conditioning
11 in another such assemblage, then each such assemblage shall
12 be deemed to be a separate Gas Conditioning Plant. If Support
13 Facilities are used in connection with the construction or
14 operation of a Unit Plant, a portion of the costs attributable
15 to such Support Facilities shall be included in computing
16 certain costs with respect to said Gas Conditioning Plant,
17 as more particularly provided in Subsection 3.2.24. For
18 purposes of illustration only, a functional description of
19 one possible design for a Gas Conditioning Plant is contained
20 in Exhibit A. A Gas Conditioning Plant may ultimately be
21 constructed which differs from that described in Exhibit A.

22
23 3.2.11 Heating Value of particular gas shall mean
24 the gross number of BTU's per standard cubic foot of said
25 gas at a pressure of 14.65 psia and a temperature of 60°
26 Fahrenheit.

27
28 3.2.12 Initial Amount shall mean, with respect to
29 a particular Gas Conditioning Plant, the amount per MCF
30 of Royalty Gas determined in accordance with Subsection
31 3.8.1.

32

1 3.2.13 Initial Period, except as provided in Subsection
2 3.8.4, shall mean, with respect to a particular Gas Condition
3 ing Plant, the period beginning at 12:01 A.M. on the first day
4 of the calendar month following the calendar month during
5 which Major Gas Sale occurs and ending at the end of the
6 calendar year following the calendar year during which Major
7 Gas Sale occurs. For example, if Major Gas Sale occurs
8 on January 15, 1985, the term "Initial Period" (except as
9 provided in Subsection 3.8.4) shall mean the period beginning
10 on February 1, 1985, and ending on December 31, 1986.

11
12 3.2.14 Interest During Construction shall mean, with
13 respect to a particular Gas Conditioning Plant, the cumula-
14 tive total of all Construction Interest calculations for said
15 plant. "Construction Interest" for each Gas Conditioning
16 Plant shall be calculated for each calendar month starting
17 with the month during which the Federal Energy Regulatory
18 Commission issues a final certificate of public convenience
19 and necessity with respect to a major gas pipeline for trans-
20 porting gas off the North Slope of Alaska (or, if no such
21 certificate is required, starting with the month during
22 which the final permit, certificate or approval necessary
23 to begin construction of such a pipeline is obtained) and
24 ending with the month during which Major Gas Sale occurs.
25 "Construction Interest" for a particular Gas Conditioning
26 Plant shall be determined by multiplying the Relevant Sum
27 for said plant for a particular calendar month by the Effective
28 Rate Of Interest for that month. The "Relevant Sum" for a
29 particular Gas Conditioning Plant for a particular calendar
30 month shall be the cumulative total amount of Investments
31 for said plant (excluding expenditures attributable to Support
32 Facilities) paid and recorded or approved for payment through

*Which one?
really about
facilities
CGF?*

*CGF "paid off"
Under AMB
row 17, 18, gas
settlement?*

1 the last day of that month, plus the cumulative total of
2 all previous Construction Interest calculations for said
3 plant.

4
5 3.2.15 Intermediate Valuation Point shall mean:

6
7 (a) with respect to RIV Gas delivered for Conditioning
8 to a Unit Plant, the outlet of said plant.

9
10 (b) with respect to RIV Gas delivered for Condition-
11 ing to a Non-Unit Plant (other than RIV Gas described in
12 Paragraph 3.2.15(a)), the inlet of said plant. If particular
13 RIV Gas produced from the Unit Area is first Conditioned
14 in a Non-Unit Plant prior to further Conditioning in another
15 Non-Unit Plant, the Intermediate Valuation Point for such
16 gas shall be the inlet of the first such Non-Unit Plant.

17
18 (c) with respect to RIV Gas never delivered to a Gas
19 Conditioning Plant for Conditioning, the meter at which
20 the volume of said gas is measured for royalty purposes.

21
22 3.2.16 Intermediate Value shall mean, with respect
23 to particular Royalty Gas, the value of said gas at the
24 Intermediate Valuation Point for said gas.

25
26 3.2.17 Investments shall mean, with respect to a par-
27 ticular Gas Conditioning Plant, the total of all costs, in
28 dollars actually spent (not escalated), attributable to the
29 engineering, design, acquisition, construction, transportation,
30 erection, expansion, alteration, start-up, commissioning and
31 replacement (including unreimbursed costs associated with
32 a catastrophic loss) of said Gas Conditioning Plant, minus

Implication??

What about amount recovered through oil field costs, CGF settlement, or otherwise? What about old facilities that are used up but cost would not reflect same?

1 the salvage value of equipment removed from said plant if
2 the cost of such equipment was previously included in Inves'
3 ments. "Investments" for said plant shall also include a
4 portion of the total of such types of costs, in dollars
5 actually spent (not escalated), incurred with respect to
6 Support Facilities, if any, for said plant, allocated on
7 the basis set forth in Subsection 3.2.24, but shall not
8 include any expenditure made after Major Gas Sale which is
9 attributable to the Conditioning of gas produced from outside
10 the Unit Area. If all or any portion of the facilities
11 presently constituting the Central Injection Plant (a part
12 of Non-Shared Group C, as defined in Exhibit 32B of the
13 Unit Operating Agreement) are used to provide sales boost
14 compression for said Gas Conditioning Plant (and thus con-
15 stitute a part of said Gas Conditioning Plant), but said
16 facilities remain available for the injection of gas back
17 into the Unit Area when not being used for sales boost com-
18 pression, "Investments" for said plant shall include ninety
19 eight percent (98%) of all of the aforesaid types of costs,
20 in dollars actually spent (not escalated), incurred with
21 respect to those Central Injection Plant facilities capable
22 of being used both for sales boost compression and for gas
23 injection.

could be
bad

25 3.2.18 Major Gas Sale shall mean 12:01 A.M. on the
26 day on which the first delivery of gas produced from the
27 Unit Area is made to a major gas pipeline for transportation
28 off the North Slope of Alaska for any purpose other than,
29 or in addition to, use or consumption as fuel for TAPS.

31 3.2.19 Majority Owned Plant shall have the meaning
32 given to it in Subsection 3.9.2.

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3.2.20 Minority Owned Plant shall have the meaning given to it in Subsection 3.9.3.

3.2.21 Non-Unit Plant shall mean a Gas Conditioning Plant that is not Unit Equipment.

3.2.22 Plant Investment Costs shall mean, with respect to a particular Gas Conditioning Plant, the sum of Investments for said plant plus Interest During Construction for said plant.

3.2.23 Regulated Plant shall have the meaning given to it in Subsection 3.9.4.

3.2.24 Support Facilities shall mean those items of Unit Equipment which are used both (i) to support (whether directly or indirectly) the construction or operations of a Unit Plant and (ii) to support other Unit Operations; provided, however, that Support Facilities shall not include such portion, if any, of those facilities presently constituting the Central Injection Plant (a part of Non-Shared Group C, as defined in Exhibit 32B of the Unit Operating Agreement) as are used to provide sales boost compression for said Gas Conditioning Plant. Support Facilities may include, but are not limited to, facilities of the types listed in Exhibit B. Except as otherwise expressly provided in this Agreement, in computing Investments, Plant O&M Costs (as defined in Subparagraph 3.8.1(a)(2)) and Ad Valorem Taxes (as defined in Subparagraph 3.8.1(a)(1)) for the purpose of calculating the Calculated Conditioning Cost for said plant, an allocated portion of, respectively, the investment costs, operating and maintenance costs and ad valorem taxes

*Read in the
N all sec 3.8.1(a)(1)
3.8.1(a)(2)*

Ex B:
Usage - Proportion
Central Power System - since 93 is
FFGU - Initial Period
not like old field

Investment Ratio
Construction-related facilities
Operations " "
Supervisory control
roads, bridges
Utilities
communications
flares

(investment ratio at end of
initial period - new
(project budget into all
new old infrastructure)
Also, will reflect our time
New plants have a larger
% than old all facilities
bought at same time
pay top dollar for old
stuff

GAMP
other support
facilities

1 attributable to the Support Facilities, if any, for said
2 plant shall also be included in such computations as though
3 such allocated portion were incurred directly with respect
4 to said plant. The basis for allocating to said plant a
5 portion of such costs attributable to certain types of Support
6 Facilities is shown in Exhibit B. As used in Exhibit B,
7 allocation by "Investment Ratio" shall mean allocation in
8 the same proportion as the ratio of total Plant Investment
9 Costs for said plant (excluding costs attributable to Support
10 Facilities) to total investment costs in the Unit (excluding
11 costs attributable to Support Facilities) at the end of
12 the Initial Period; and allocation by "Percentage Based
13 on Usage" shall mean allocation in the same proportion as
14 the ratio of usage of the particular facility by or in support
15 of said plant to total usage of the facility during the
16 Initial Period. If Support Facilities of a type not shown
17 in Exhibit B are used to support said plant, the investment
18 costs, operating and maintenance costs and ad valorem taxes
19 attributable thereto shall be allocated between said plant
20 and the other facilities supported by such Support Facilities
21 in accordance with generally accepted accounting principles.

23 3.2.25 Total Plant Throughput for a particular period
24 shall mean:

will include (O2)
gas to be cycled for unit plant,

26 (a) with respect to a particular Unit Plant, the total
27 volume (measured at the outlet of said plant and expressed
28 in MCF) of all tailgate residue gas, and other products and
29 byproducts discharged from said plant during that period
30 minus any portion of said total volume that is Used In Unit
31 Operations.

1 (b) with respect to a particular Non-Unit Plant, the
2 total volume (measured at the inlet of said plant and ex-
3 pressed in MCF) of all gas produced from the Unit Area and
4 delivered to said plant during that period (hereinafter,
5 "Delivered Gas") minus the volume determined by multiplying
6 (i) the total volume (measured at the outlet of said plant
7 and expressed in MCF) of any portion of the tailgate residue
8 gas and other products and byproducts yielded from Deli-
9 vered Gas that is Used In Unit Operations (hereinafter,
10 "Returned Gas"), by (ii) the ratio determined by dividing
11 (A) the volume weighted average Heating Value (measured
12 at the outlet of said plant) of Returned Gas, by (B) the
13 volume weighted average Heating Value (measured at the inlet
14 of said plant) of Delivered Gas.

15
16 3.2.26 Unit Equipment shall have the meaning given
17 to it in the Unit Agreement.

18
19 3.2.27 Unit Operating Agreement shall have the meaning
20 given to it in the Unit Agreement.

21
22 3.2.28 Unit Operations shall have the meaning given
23 to it in the Unit Agreement.

24
25 3.2.29 Unit Partial Conditioning Plant shall mean
26 a Unit Plant in which gas produced from the Unit Area is
27 Conditioned prior to further Conditioning in a Non-Unit
28 Plant.

29
30 3.2.30 Unit Plant shall mean a Gas Conditioning Plant
31 that is Unit Equipment.

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3.2.31 Used In Unit Operations shall have the meaning given to it in Subsection 3.15.1.

3.3 Settled RIK Gas Taking Issue. As used herein, the term "Settled RIK Gas Taking Issue" shall mean the issue of where and in what condition the Lessees are obligated to deliver RIK Gas to the State. In full and final settlement of the respective claims and contentions of the State and each of the Lessees with respect to the Settled RIK Gas Taking Issue, the State and each of the Lessees agree as follows:

3.3.1 Unit Plant. If there is a Unit Plant, then all RIK Gas shall be taken by the State at the outlet of said plant.

3.3.2 Non-Unit Plant. If there is a Non-Unit Plant and there is no Unit Plant, then all RIK Gas shall be taken by the State upstream of said Non-Unit Plant at a single point located within the Unit Area and mutually agreed upon by the State and the Lessees.

3.3.3 No Plant. If there is no Gas Conditioning Plant, then all RIK Gas shall be taken by the State at a single point located within the Unit Area and mutually agreed upon by the State and the Lessees.

3.3.4 Condition at Point of Taking. All RIK Gas taken as royalty from a particular Lessee at a particular time shall be delivered to the State in the same condition as gas generally available for taking or other disposition by said Lessee at the time and point at which said RIK Gas is taken by the State.

1 3.4 Settled Upstream RIK Gas Issue. As used herein,
2 the term "Settled Upstream RIK Gas Issue" shall mean the issue
3 of whether, with respect to RIK Gas taken by the State as royalty
4 from a particular Lessee, the State is liable to said Lessee
5 for reimbursement of (i) all or any portion of the Field Costs
6 incurred by said Lessee with respect to said gas, and (ii) all
7 or any portion of any Conditioning costs incurred by said Lessee
8 with respect to said gas upstream of the point of taking. In
9 full and final settlement of the respective claims and contentions
10 of the State and each of the Lessees with respect to the Settled
11 Upstream RIK Gas Issue, the State and each of the Lessees agree
12 that, with respect to each MCF of RIK Gas taken as royalty from
13 a particular Lessee, the State shall be liable to that Lessee
14 for an amount equal to the Upstream Cost Allowance with respect
15 to said gas, determined in accordance with Section 3.6.

16
17 3.5 Settled Upstream RIV Gas Issue. As used herein,
18 the term "Settled Upstream RIV Gas Issue" shall mean the issue
19 of whether, in computing the value of Royalty Gas for the purpose
20 of making royalty payments "in value" on gas produced from the
21 Unit Area, each Lessee may deduct from the Intermediate Value
22 of said gas (i) all or any portion of the Field Costs incurred
23 by said Lessee with respect to said gas, and (ii) all or any
24 portion of any Conditioning costs incurred by said Lessee with
25 respect to said gas in a Gas Conditioning Plant located upstream
26 of the Intermediate Valuation Point for said gas. In full and
27 final settlement of the respective claims and contentions of
28 the State and each of the Lessees with respect to the Settled
29 Upstream RIV Gas Issue, the State and each of the Lessees agree
30 that, in computing the value for royalty purposes of each MCF
31 of RIV Gas for which a particular Lessee makes settlement, said
32 Lessee may deduct from the Intermediate Value of said gas an

1 amount equal to the Upstream Cost Allowance with respect to said
2 gas, determined in accordance with Section 3.6.

3
4 3.6 Upstream Cost Allowance. Each Lessee shall be
5 entitled to an Upstream Cost Allowance with respect to Royalty
6 Gas, determined as follows:

7
8 3.6.1 Gas Conditioned by Unit Plant. The Upstream
9 Cost Allowance for Royalty Gas that is discharged from a
10 Unit Plant and measured for royalty purposes during a par-
11 ticular calendar month shall be an amount per MCF (measured
12 at the outlet of said plant) equal to the sum of: (i) the
13 Field Cost Allowance determined for said month in accordance
14 with Section 3.7, plus (ii) the Calculated Conditioning
15 Cost determined for said plant and said gas in accordance
16 with Section 3.8.

17
18 3.6.2 Other Royalty Gas. The Upstream Cost Allowance
19 for Royalty Gas measured for royalty purposes during a parti-
20 cular calendar month, other than Royalty Gas described in
21 Subsection 3.6.1, shall be an amount per MCF (measured at
22 the point of taking in the case of RIK Gas and at the Inter-
23 mediate Valuation Point in the case of RIV Gas) equal to the
24 Field Cost Allowance determined for said month in accordance
25 with Section 3.7, whether or not there is a Unit Plant.

26
27 3.7 Field Cost Allowance. The Field Cost Allowance
28 for Royalty Gas shall be determined as follows:

29
30 3.7.1 Pre-1986. The Field Cost Allowance with respect
31 to Royalty Gas, if any, measured for royalty purposes after
32

1 Major Gas Sale and on or before December 31, 1985, shall
2 be 15.5 cents per MCF.

3
4 3.7.2 Thereafter. The Field Cost Allowance with respect
5 to Royalty Gas measured for royalty purposes after Major
6 Gas Sale and on or after January 1, 1986, shall be the amount
7 per MCF determined by using the following formula:

8
9
10 Field Cost Allowance per MCF = 15.5 cents X $\frac{\text{PPI for the year prior to the Year Of Production}}{\text{PPI for 1984}}$

11
12
13 3.7.3 Upstream Gas Facilities. A functional descrip-
14 tion of facilities used to clean, dehydrate and transport
15 gas is contained in Exhibit C.

16
17 3.8 Calculated Conditioning Cost. The Calculated
18 Conditioning Cost for a particular Gas Conditioning Plant and
19 particular Royalty Gas shall be determined as follows:

20
21 3.8.1 Initial Amount

22
23 (a) Formula. With respect to Royalty Gas measured
24 for royalty purposes during a particular calendar month
25 after Major Gas Sale and prior to the end of the calendar
26 month during which the Commissioner is notified of the Base
27 Amount pursuant to Paragraph 3.8.2(b), the Calculated Condi-
28 tioning Cost shall be the amount per MCF (hereinafter, the
29 "Initial Amount") determined by using the following formula:

30
31 Initial Amount per MCF = An estimate of the Base Investment Component + An estimate of the Base O&M Component,
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where:

(1) "Base Investment Component" is the per MCF amount determined by adding:

(i) "Interest on Plant Investment Costs" (the amount determined by multiplying Plant Investment Costs as of the end of the Initial Period by the Effective Rate Of Interest for the Initial Period); plus

(ii) "Depreciation" (the amount determined by dividing Plant Investment Costs as of the end of the Initial Period by 300 and then multiplying by the number of months in the Initial Period) (this represents depreciation calculated on a 25-year straight line basis); plus

(iii) "Ad Valorem Taxes" (the amount determined by multiplying one-twelfth of all ad valorem taxes applicable to the Gas Conditioning Plant for the last calendar year of the Initial Period, plus a portion of the total of all ad valorem taxes applicable to all Support Facilities for such calendar year (allocated on the basis set forth in Subsection 3.2.24) by the number of calendar months in the Initial Period);

and then dividing said sum by Total Plant Throughput for the Initial Period; and

*incentive for high
O&M during initial
period (which then
escalates w/ PPI)*

1 (2) "Base O&M Component" is the per MCF 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 showi
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

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3.8.2 Base Amount.

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(a) Formula. With respect to Royalty Gas measured for royalty purposes during a particular calendar month after the end of the calendar month during which the Commissioner is notified of the Base Amount and prior to the end of the Base Period, the Calculated Conditioning Cost shall be the amount per MCF (hereinafter, the "Base Amount determined by using the following formula:

$$\begin{array}{l} \text{Base Amount} \\ \text{per MCF} \end{array} = \begin{array}{l} \text{Base Investment} \\ \text{Component} \end{array} + \begin{array}{l} \text{Base O\&M} \\ \text{Component,} \end{array}$$

where:

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

and

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

get all increments &
O&M is not actual
a fee - base period but
↑ w/ PPI

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Adjusted Investment Component = Base Investment Component X $\frac{\text{Plant Investment Costs as of December 31 of the year prior to the Year Of Production}}{\text{Plant Investment Costs as of the end of the Initial Period,}}$

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:

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

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

*diff costs
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the meaning set forth in Paragraph 3.8.4 (c), except that, in such event, the previously calculated "Init. Amount" shall not be recalculated and shall continue to be used as the Calculated Conditioning Cost for that plant with respect to Royalty Gas measured for royalty purposes prior to the end of the calendar month during which the Commissioner is notified of the Base Amount for that plant pursuant to Paragraph 3.8.2(b).

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

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

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

amended?

When?

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

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

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

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

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

3.9.5 Adjectives. The term "Undivided" refers to a Non-Unit Plant that is not a Divided Plant. The term "Unregulated" refers to a Non-Unit Plant that is not a Regulated Plant.

3.10 Settled Downstream RIK Gas Issue. As used herein, the term "Settled Downstream RIK Gas Issue" shall mean the issue of whether and, if so, the extent to which and for what price, any Lessee is required to condition or otherwise treat all or any portion of the gas produced from the Unit Area and taken by the State as royalty "in kind." 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 RIK Gas Issue, the State and each of the Lessees agree that:

3.10.1 Unregulated Divided and Unregulated Majority Owned Plants. Each Lessee who owns an interest (or whose 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
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 here)
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

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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:

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

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where:

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

Point of Valuation ->

(2) "Lessee's Net Inlet Volume" is the total volume (measured at the inlet of said plant) of said Lessee's Inlet Gas for said plant and month minus the volume determined by multiplying (i) the total volume (measured at the outlet of said plant and expressed in MCF) of any portion of the tailgate residue gas and other products and byproducts yielded from said Inlet Gas which is Used In Unit Operations (hereinafter, "Lessee's Returned Gas"), by (ii) the ratio determined by dividing (A) the volume weighted average Heating Value (measured at the outlet of said plant) of Lessee's Returned Gas, by (B) the volume weighted average Heating Value (measured at the inlet of said plant) of said Inlet Gas; and

Valuation on a btu equiv. basis?

(3) "Downstream Conditioning Allowance" is the per MCF amount determined for said plant and said RIV Gas 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
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particular calendar month at the inlet of said plant shall be determined as follows: -

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

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

(B) the volume (expressed in MCF) equal to the product of (i) Total Plant Throughput for that month, multiplied by (ii) said Lessee's percentage of ownership in said Gas Conditioning Plant (or, if an Affiliate of said Lessee owns an interest in said plant, the aggregate percentage owned by said Lessee and all of its Affiliates), multiplied by (iii) twelve and one-half percent (12- multiplied by (iv) the percentage of Royalty Gas for that month which the State did not take "in kind" during that month;

the Downstream Conditioning Allowance (per MCF of said RIV Gas measured at the inlet of said plant) shall be equal to the Calculated Conditioning Cost (per MCF measured at the inlet of said plant) determined for said plant and gas in accordance with Section 3.8; provided, however, that 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 the Calculated Conditioning Cost shall not apply with respect to any

1 of said RIV Gas and the Downstream Conditioning Allowance
2 with respect to said RIV Gas shall be determined in
3 accordance with Subparagraph 3.11.2(b)(2).
4

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

13
14 (A) if said plant is an Undivided Gas Conditioning
15 Plant, the tariff rate or charge (per MCF measured
16 at the inlet of said plant) established by the
17 owners of said plant for Conditioning said Lessee's
18 Inlet Gas in said plant during said month; or,
19 if no such tariff rate or charge is established,
20 the volume weighted average tariff rate or charge
21 (per MCF measured at the inlet of said plant)
22 paid for Conditioning in said plant during said
23 month gas of the same kind and quality as said
24 Lessee's Inlet Gas.

25
26 (B) if said plant is a Divided Plant, the tariff
27 rate or charge (per MCF measured at the inlet
28 of said plant) established by said Lessee (or,
29 if said Lessee does not own an interest in said
30 plant, established by said Lessee's Affiliate
31 who owns an interest in said plant) for Condi-
32 tioning in said plant during said month gas of

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

(c) Lessee-Owner of Unregulated, Undivided Minority Owned Plant. With respect to RIV Gas for which a particular Lessee who owns an interest (or whose Affiliate owns an interest) in an Unregulated Undivided Minority Owned Plant makes settlement, the Downstream Conditioning Allowance for said plant with respect to each MCF of said RIV Gas measured during a particular calendar month at the inlet of said plant shall be equal to 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 such Conditioning occurring in said plant during said month.

(d) Non-Owner Lessee. With respect to any RIV Gas for which a particular Lessee makes settlement, which gas is delivered during a particular calendar month to a Gas Conditioning Plant in which neither said Lessee nor any Affiliate of said Lessee owns an interest, the Downstream 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

*Send down stream
RIV + RIV gas i/c
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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 throu
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.

*Settled down
RIV gas issue*

Differential Amt = CCC - Established Amt

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.

1 . 3.13.2 Obligation.

2
3 (a) Royalty Gas, Unit Plant. With respect to each
4 MCF of Royalty Gas (i) discharged from a particular Unit
5 Plant prior to the end of the calendar month during which
6 the Commissioner is notified of the Base Amount for said
7 plant pursuant to Paragraph 3.8.2(b), and (ii) taken as
8 royalty from a particular Lessee (in the case of RIK Gas)
9 or for which a particular Lessee makes or is obligated to
10 make royalty settlement "in value" (in the case of RIV Gas):

11
12 (1) if the Established Amount for said Lessee, plant
13 and gas is less than the Calculated Conditioning Cost
14 for said plant and gas, then said Lessee shall pay
15 the Differential Amount Per MCF for said Lessee, plant
16 and gas to the State within forty-five days after the
17 Commissioner is notified of the Base Amount for said
18 plant pursuant to Paragraph 3.8.2(b).

19
20 (2) if the Established Amount for said Lessee, plant
21 and gas is greater than the Calculated Conditioning
22 Cost for said plant and gas, then the State shall pay
23 the Differential Amount Per MCF for said Lessee, plant
24 and gas to said Lessee promptly (within forty-five
25 days, if possible) after the Commissioner is notified
26 of the Base Amount for said plant pursuant to Para-
27 graph 3.8.2(b). Each Lessee whom any payment will
28 be due under this Subparagraph 3.13.2(a) (2) shall in-
29 voice the Commissioner for the total amount due to
30 said Lessee within fifteen days after the Commissioner
31 is so notified of said Base Amount.
32

*State pays higher
of CCC or
tariff (?)*

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 ten-
19 dered 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

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

3.14.2 RIK Gas Tendered Under § 3.10.1. If, in accordance with Section 1.5, the Calculated Conditioning Cost for a particular Non-Unit Plant and particular RIK Gas tendered for Conditioning in said plant pursuant to Subsection 3.10.1 is calculated using the Interim PPI for the year prior to the Year Of Production for said gas and, as a result, any Lessee

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

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

if said Calculated Conditioning Cost had been calculated using the PPI for said year as finally determined and reported (such amount calculated using the PPI for said year as finally determined and reported being referred to in this Subsection 3.14.2 as the "Redetermined Amount" with respect to said 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.

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

*If no heating value
(C.S. CO2), then no
volume assigned; if
no volume assigned,
then bore no
cost, right?)*

e.g.

$$.5 \text{ bcf} \times \frac{0}{900} = 0$$

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.
29
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31
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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 payment
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

*May 14 per order will
provide 36 months*

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 Agreement
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
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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

answer in rcss -
No

answer in reg
no

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

answer in reg?
value-

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

value-

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

(g) The issue of where and in what condition the Lessees are obligated to deliver to the State any royalties "in kind" accruing with respect to gas that is produced from the Unit 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."
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answer no
in reg 5.

valuation

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.

EXHIBIT B

PARTIAL LIST OF POTENTIAL SUPPORT FACILITIES

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<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

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

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

Current plans envision a "stand-alone" plant; i.e., all facilities such as power, utilities, flare systems, communications systems, etc. used to support the plant will be incorporated into the plant design and therefore will be considered to be part of the plant regardless of where such facilities are physically located. If the plant that is ultimately constructed utilizes existing or future Support Facilities, a share of the costs attributable to such Support Facilities shall be included in computing the Calculated Conditioning Cost.

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.

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.

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(a) Initial Amount = $IC_E + OMC_E$.

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

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

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

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

(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:

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

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 TPT_{IP} = Total Plant Throughput for the Initial

6 Period (§ 3.2.25).

7

8 O&M_{IP} = Plant O&M Costs for the Initial Period

9 (§ 3.8.1(a)(2)).

10

11 PIC_{IP} = Plant Investment Costs as of the end of the

12 Initial Period (§ 3.2.22).

13

14 R_{IP} = 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
4 Base Amount = $IC_B + OMC_B$.

5
6 Therefore, Base Amount =

7
$$\frac{(PIC_{IP}) \times (R_{IP}) + \left(\frac{1}{300}\right) \times (PIC_{IP}) \times (M) + \left(\frac{1}{12}\right) \times (AV) \times (M) + O\&IP}{TPT_{IP}}$$

8
9
10
11 Where: All terms have the meaning given to them in (1)
12 above.

13
14 (3) Adjusted Amount (the Calculated Conditioning Cost
15 for Royalty Gas measured for royalty purposes during a particular
16 calendar year after the end of the Base Period (1989 and thereafter,
17 given the foregoing assumptions) (\$ 3.8.3)):

18
19 (a) Adjusted Amount = $IC_A + OMC_A$.

20
21 (b) $IC_A = (IC_B) \times \left(\frac{PIC_N}{PIC_{IP}}\right)$.

22
23 (c) $OMC_A = (OMC_B) \times \left(\frac{PPI_N}{PPI_{IP}}\right)$.

24
25 Therefore, Adjusted Amount =

26
27
$$(IC_B) \times \left(\frac{PIC_N}{PIC_{IP}}\right) + (OMC_B) \times \left(\frac{PPI_N}{PPI_{IP}}\right),$$

28
29 Where:

30
31 IC_A = Adjusted Investment Component.

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OMC_A = Adjusted O&M Component.

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

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

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

All other terms have the meaning given to them in (1) 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.

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

Calculate:

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

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

= 2,100,000 MCF.

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

$$\begin{aligned} \text{Volume (ii)} &= (\text{TPT}_M) \times (\text{POP}_Y) \times (12.5\%) (\text{PTIK}_M) \\ &= (75,000,000 \text{ MCF}) \times (40\%) \times (12.5\%) \times (70\%) \\ &= 2,625,000 \text{ MCF.} \end{aligned}$$

Where:

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TPT_M = Total Plant Throughput for the calendar month
in question (§ 3.2.25).

POP_Y = Lessee Y's percentage of ownership in the
Gas Conditioning Plant.

PTIK_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.

EXHIBIT F

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

This Exhibit illustrates, with respect to RIV Gas for which a particular Lessee ("Lessee Y") who owns an interest in a 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) makes settlement, and which is measured for royalty purposes during a particular calendar month at the inlet of said plant, the manner in which one calculates, pursuant to Paragraph 3.11.2(b), the volume of the portion of said gas for which the Downstream Conditioning Allowance is 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 Plant or an Unregulated Divided Plant (§ 3.9).
- (C) Lessee Y owns a 40% interest in the Gas Conditioning Plant.

¹The assumptions in this Exhibit are fictitious and are made only for the purpose of illustrating the application of Paragraph 3.11.2(b). No party is entering into this Agreement in reliance on any of these assumptions or conclusions drawn therefrom.

- 1 (D) The State has not elected to abandon the Calculated
- 2 Conditioning Cost with respect to Lessee Y
- 3 (§ 3.12).
- 4 (E) The percentage of Royalty Gas for the month in ques-
- 5 tion which the State did not take "in kind"
- 6 during said month is 30%.
- 7 (F) Total Plant Throughput for the month in question
- 8 is 75,000,000 MCF.
- 9 (G) The volume of the portion of the RIV Gas for which
- 10 Lessee Y makes settlement that is measured for
- 11 royalty purposes during the calendar month in
- 12 question at the inlet of the Gas Conditioning
- 13 Plant is 900,000 MCF.

14
15 Calculate:

- 16
- 17 (1) The volume described in § 3.11.2(b)(1) (hereinafter,
- 18 "Volume (1)":

19

20 Volume (1) = the volume of the portion of the RIV

21 Gas for which Lessee Y makes settlement that

22 is measured for royalty purposes during the

23 calendar month in question at the inlet of the

24 Gas Conditioning Plant.

25 = 900,000 MCF.

- 26
- 27 (2) The volume described in § 3.11.2(b)(2) (hereinafter,
- 28 "Volume (2)":

29

30 Volume (2) = $(TPT_M) \times (POP_Y) \times (12.5\%) \times (PNTK_M)$

31 = $(75,000,000 \text{ MCF}) \times (40\%) \times (12.5\%) \times (30\%)$

32 = 1,125,000 MCF.

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Where:

TPT_M = Total Plant Throughput for the calendar month
in question (§ 3.2.25).

POP_Y = Lessee Y's percentage of ownership in the
Gas Conditioning Plant.

PNTK_M = the percentage of Royalty Gas for the month
in question which the State did not take
"in kind" during said month.

(3) The volume of the portion of Lessee Y's Inlet RIV
Gas for which the Downstream Conditioning Allow-
ance is equal to the Calculated Conditioning
Cost (hereinafter, "CCC Volume"):

(a) CCC Volume = Lesser of Volume (1) or
Volume (2).

(b) 900,000 MCF is less than 1,125,000 MCF.

Therefore, CCC Volume = 900,000 MCF.

Where:

Lessee Y's Inlet RIV Gas = All RIV Gas for which Lessee Y makes
settlement that is measured for royalty
purposes during the month in question
at the inlet to the Gas Conditioning
Plant.

