

OUTER CONTINENTAL SHELF

PRODUCTION HANDLING AGREEMENTS

August 14, 2018



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- The Many Benefits of PHAs?
- What Limitations or Pitfalls must be Considered?
- What Options Exist at the End of the Economic Life of a Host?
- Are the Shelf and Deepwater PHAs Conceptually Different?
- Other Considerations?
- Q&A

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Do you know?

- What % of GOM wells are tied to host platforms?
- What % of GOM production is tied into host platforms?

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Why are PHAs critical to offshore E&P business?

- ‘Save the Day’ for many fields too small for stand-alone structure;
- Add production and reserves at lower cost, resulting in increased profitability;
- Bring production online more quickly (half the time?);
- Helps mitigate the chance a significant capital project is underutilized;
- Prolongs the life of existing infrastructure;

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The Many Benefits of PHAs

- » To the Platform Owner(s)
- » To the Well Owner(s)
- » To the Government (US Taxpayer)

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Who and how are parties benefited by a PHA?

Host Facility Owner(s) Benefits

- Production Handling and Processing Fees, plus either (i) Facility Access Payment (one-time), or (ii) Riser Slot Fees, Deferred Production Fees, or negotiated ORRI in lieu of Fees (*specifics to follow*).
- Sharing of Facility Operating expenses (**based on 30-90 day average production throughput of all Producers**)
- Upgrades to Facility: Producers pay for any Initial Upgrades/Future Upgrades to process/handle their production. However, if Future Upgrades are shared between Host/Producers, then **costs allocated based on Reserved Firm Capacity**. Once installed, all Upgrades becomes property of Host Facility Owners. Producers remain liable for abandonment of its subsea production system up to the Entry Point of Host Facility.
- Potentially Defer Abandonment Retirement Obligation (ARO) of the Facility for several years. (Note: ARO is placed on Host Facility Owners' Balance Sheet)

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Who and how are parties benefited by a PHA?

Producers' Benefits

- Use of an existing Facility avoids significant capital costs and time required for design, construction and installation of a new facility
- Producers are granted Reserved Firm Capacity (not interruptible), guaranteeing ability for Producers to produce, subject to: topsides or downstream issues, Host Facility Owners' Production having highest priority, and any other Reserved Firm Capacity granted under prior PHAs.
- Accelerates Producers' first production once its subsea production system is fully commissioned
- Fully executed PHA allows Producers to seek Suspension of Production (SOP) (i.e. commitment to develop and produce) from BSEE to extend leases beyond their primary term

BOEM Benefits

- Smaller discoveries within tie-back range are economical, otherwise stranded, thereby increasing revenues to the government

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Who and how are parties benefited by a PHA?

Focusing on Fees - Categories

A PHA can be very lucrative from both a fee and cost deferral perspective

Fee Categories?

- Access Fees,
- Riser Use Fees,
- Per Unit/Processing Fees,
- Overhead Fee - % of LOE, Direct Expenses; Construction Upgrades
- Monthly Operating Fee,
- Sharing LOE on a throughput basis,
- First Production Deadline Fee,
- Insurance Cost Contribution Fee,
- ORRI?

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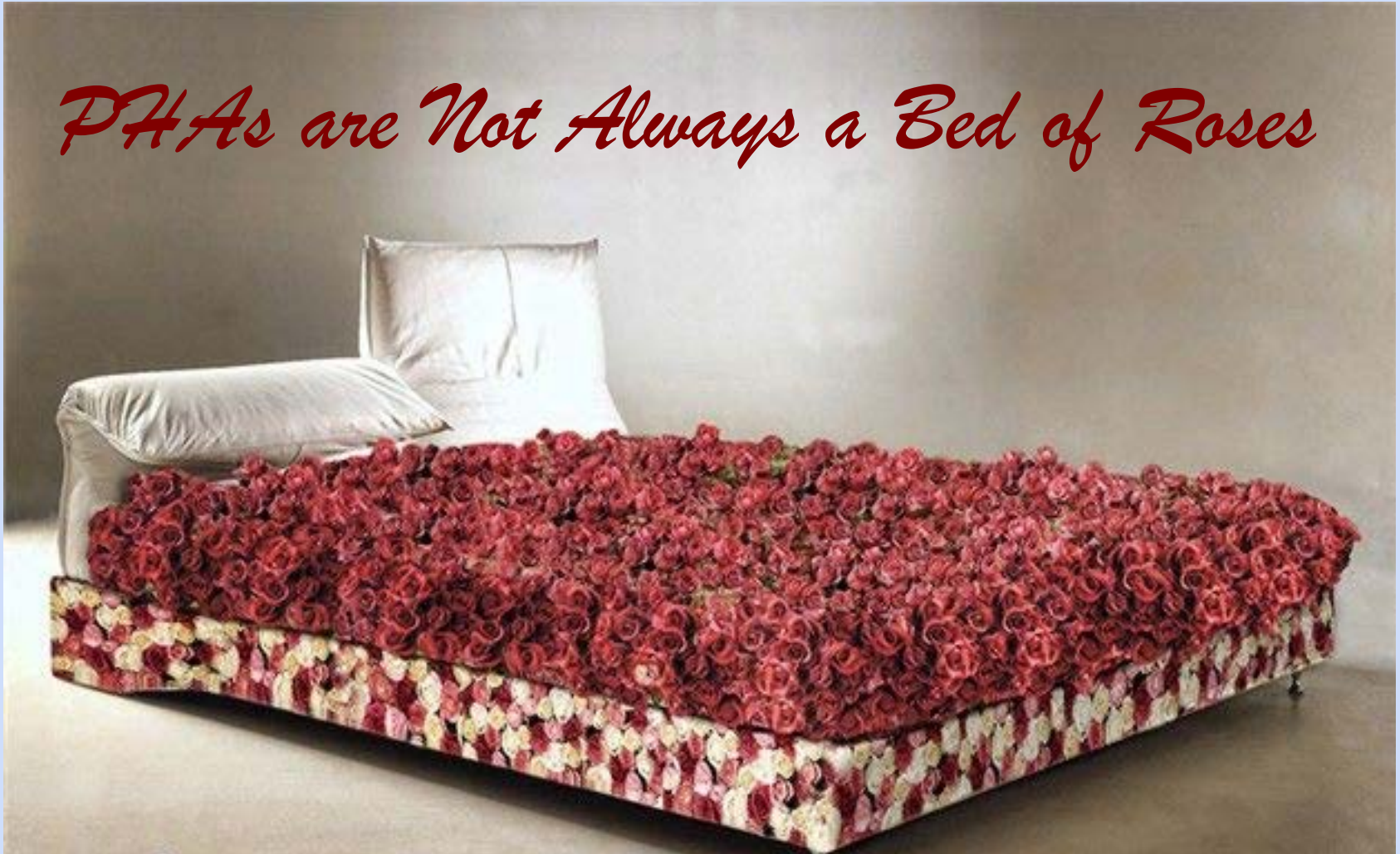
PHAs Limitations, Pitfalls and

The End of the Economic Life of the
Host

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PHAs are Not Always a Bed of Roses



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Reasons PHAs fail to work ideally for the Parties involved:

- Age of PHA Agreement's we inherit (especially on the shelf)
- Aging infrastructure
- Low commodity prices
- Financial viability of companies involved

Things we see manifested in practice because of the difficulties above:

- **Triggering of uneconomic situations sooner than expected**
- Changes in timing of P&A
- Lack of capacity and/or space on platforms

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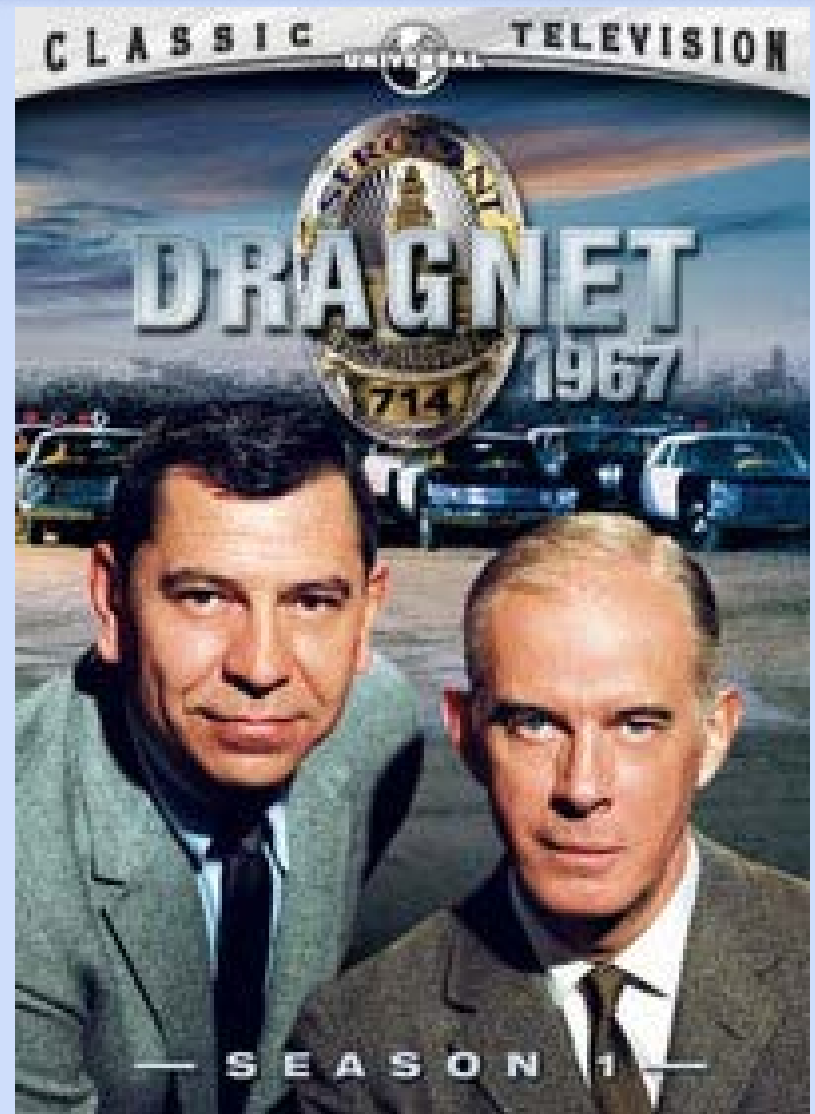


The End of the Economic Life of the Host – What Now???

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"The Story You Are About To See Is True.
The Names Have Been Changed To Protect The Innocent"



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W&T and Fieldwood (collectively, the “Processor”) entered into a PHA to handle/process satellite production from Ana, Alos and Athexis (collectively, the “Producer”).

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Article I. GATHERING AND DELIVERY

Article II. SATELLITE WELL FACILITIES

Article III. OPERATION OF THE SATELLITE WELL

Article IV. FACILITY CAPACITY UTILIZATION

Article V. PRODUCTION HANDLING FEES

Article VI. MONTHLY PRODUCTION CALCULATION AND ALLOCATION

Article VII. GAS ADJUSTMENT

Article VIII. PRODUCTION COMPATIBILITY

Article IX. INSPECTION

Article X. TRANSPORTATION/DISPOSITION OF GAS AND OIL/CONDENSATE

Article XI. ROYALTY AND TAX PAYMENTS

Article XII. TERMINATION

Article XIII. QUALITY SPECIFICATIONS

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Article XVI. INDEMNITY AND INSURANCE

Article XVII. INDEPENDENT CONTRACTOR

Article XVIII. ACCOUNTING PROVISIONS

Article XIX. NON-DISCRIMINATION

Article XX. SUCCESSORS AND ASSIGNS

Article XXI. NOTICES

Article XXII. GENERAL PROVISIONS

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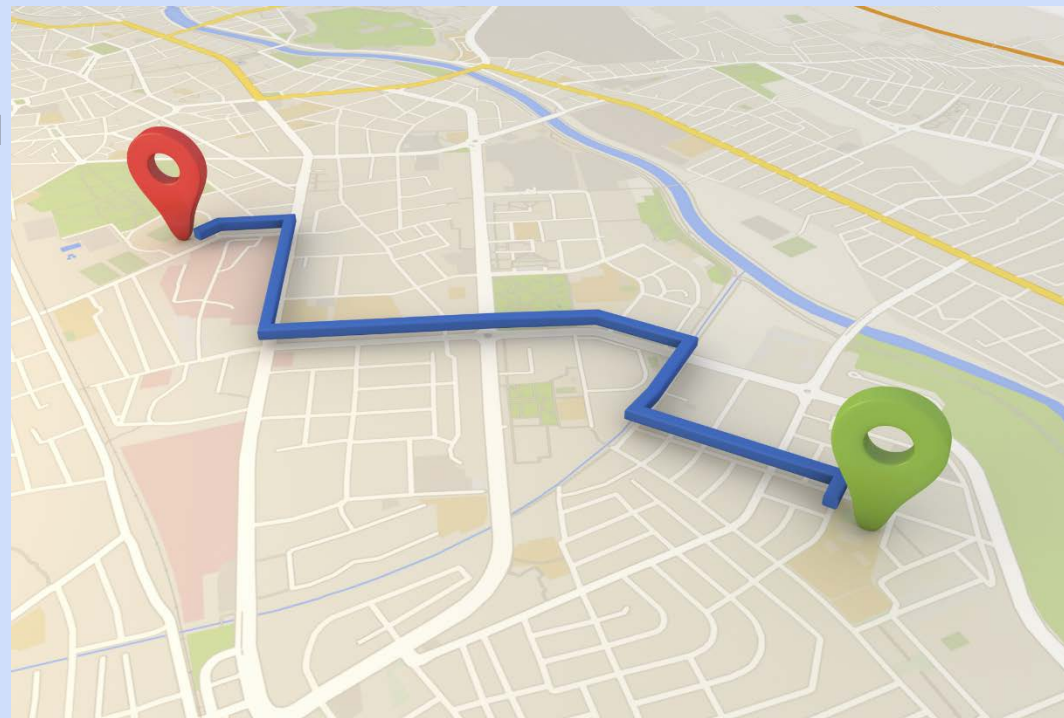


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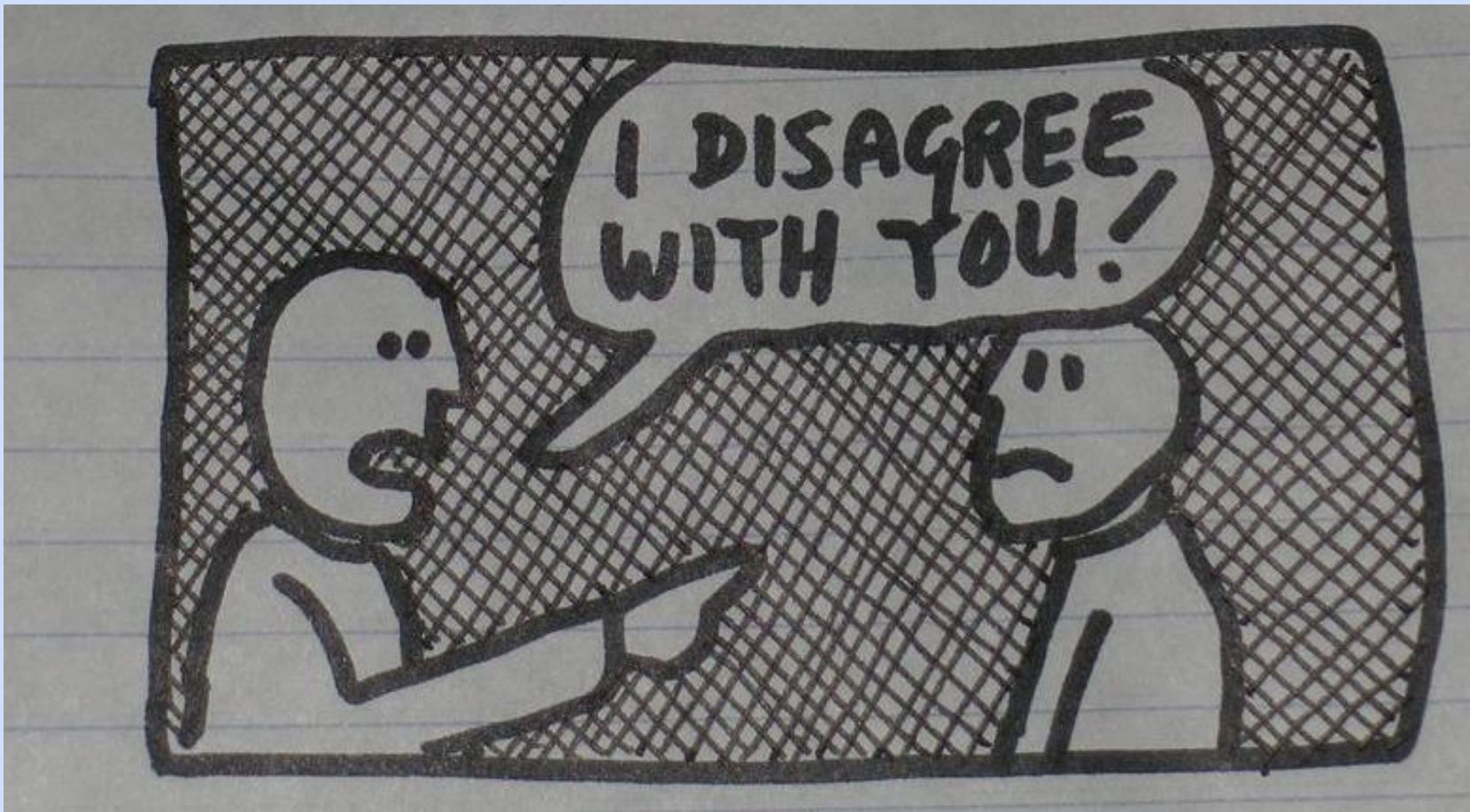
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- (i) Processor, at its sole option, may continue operating the Platform and processing production from Producer's Well(s) on behalf of Producer for fees *as mutually agreed to between the parties*;



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(ii) Processor will offer Producer the opportunity to acquire the Platform, incorporating as **consideration for such assignment the assumption by Producer of all responsibility and liability for the salvaging, abandonment, decommissioning and removal (including site clearance) of the Platform and all related facilities**, it being understood that: (i) responsibility and liability for the plugging and abandonment of the well(s) connected to the Platform as of the date of this Agreement would be retained by those Processor(s) having liability for such plugging and abandonment prior to the entering into of this Agreement, and (ii) responsibility and liability for the plugging and abandonment of the well(s) connected to the Platform pursuant to the production handling agreement (and their associated riser(s), flowline(s) and other related facilities (including amine processing unit, if applicable) would be retained by Producer; or



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(iii) If Producer does not exercise its right to acquire the Platform under (ii) above and if the Processor does not continue to operate the Platform under (i) above, then this Agreement shall terminate.



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Commencing on the date that Processors provide Producers with notice of uneconomic operation of the Host Processing Facility until the Parties agree on a future course of action as set forth in this Section, the Parties hereby agree that Processors, in their discretion, may require that **Producers pay their proportionate share of all costs and expenses of operating, maintaining and repairing the Host Processing Facility and related facilities incurred by or on behalf of Processors**, including, but not limited to, insurance costs, bonding costs, Oil Spill Financial Responsibility coverage and any other requirements for ownership and operation of the Host Processing Facility plus a ten percent (10%) overhead (the “Operating Costs”) **in lieu of the processing fees** set forth herein. Producers’ proportionate share of Operating Costs shall be **based on Producers’ percentage of production handled at the Host Processing Facility** calculated as the Satellite Well Production divided by the Total Facility Production handled at the Host Processing Facility.

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Resolution:

Producers agreed to acquire the Platform, incorporating as consideration for such assignment the assumption by Producer of all responsibility and liability for the salvaging, abandonment, decommissioning and removal **and** the Parties agreed to 'flip' the PHA such that the Producer is now the Processor and the Processor is now the Producer.

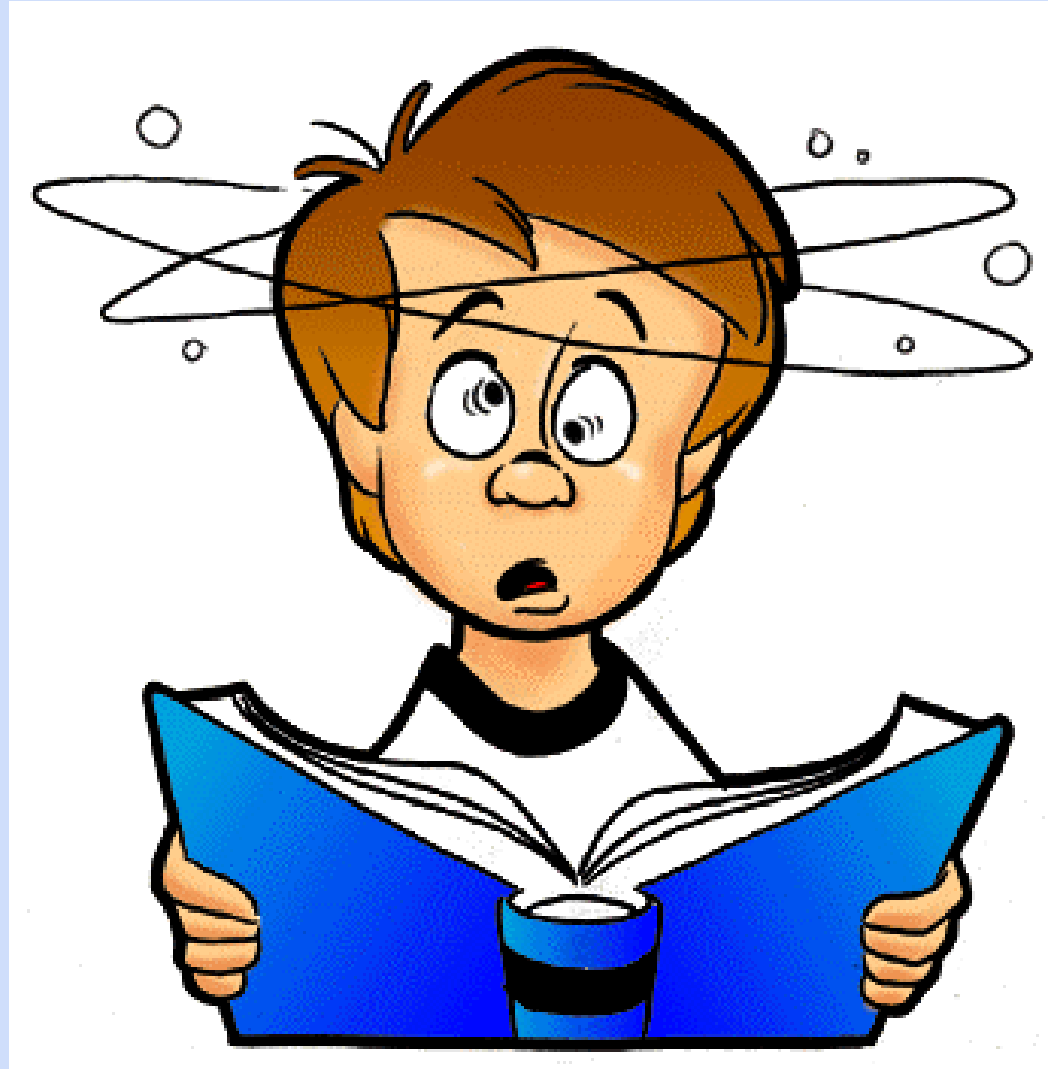


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PHA 'Flip' Complexities:

- Satellite wells are on the Host Processing Facility
- Record Title/Operating Rights Assignment
- Designation of Operator
- Bonding
- Indemnities



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...and they lived
happily ever after.

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Shelf vs Deepwater PHAs

Conceptual Differences?

**#12 OU Crushes #3
Alabama
2014 Sugar Bowl**



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Shelf and Deepwater PHA's – Conceptual Differences

Shelf	Deepwater
Fees	
<p>PHA Fees \$1.25-\$2.00/BOPD \$0.15-\$0.30/MMSCFD \$1.00-1.50/BWPD \$0.08-\$0.10/Compression (per stage) (NOTE: Subject to COPAS Adjustment)</p> <p>Connection Fee (One-time) or Riser Slot Fees; N/A Note update to Model Form</p> <p>Downtime Fee Discounting not as common Often see 24-72 hour grace period</p>	<p>PHA Fees or negotiated ORRI \$4.00-5.00/BOPD \$0.60/MMSCFD \$2.00/BWPD \$0.15/Compression (per stage), plus <i>(NOTE: Above Fees subject to (+/-) annual COPAS adjustment. Effective Date of PHA (i.e. when does COPAS annual adjustment commence?))</i></p> <p>Facility Access Payment (One-time) or Riser Slot Fees; \$30MM/One-Time Access Fee or \$12-15MM/Riser Slot Fee (per slot)</p> <p>Deferred Production Fee Payment; during Producers' unloading of wells & tie-in of subsea system to Host Facility, compensation to Host Facility Owners for deferred production (e.g. 30-40% of avg. daily Host Production x Index (O/G) Pricing x number of days for unloading/hook up)</p>

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Shelf and Deepwater PHA's – Conceptual Differences

Shelf	Deepwater
Fees, Continued	
<p>Minimum Monthly Production Handling Fee: The greater of (i) PHA Fees, or (ii) ~\$15,000</p> <p>Monthly Operating Services Fee (Pumper Gauger Fee) \$15,000 - \$25,000/month (in lieu of LOE sharing on throughput basis)</p> <p>Rarely see ORRI as an alternative form of compensation - why?</p>	<p>Share LOE on throughput basis</p> <p>Quartering Fee on Host Facility: ~\$400/day/person</p> <p>In lieu of PHA Fees a negotiated ORRI is also acceptable.</p>

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Shelf and Deepwater PHA's – Conceptual Differences

Shelf	Deepwater
Production Priority	
No firm capacity. Always subordinated to Owner's <u>Equity</u> production. Priority over subsequent 3rd party producers. What does '<u>Equity</u>' mean? New model form leaves it open for interpretation.	Reserved Firm Capacity (subject first to Host Production and any other previous PHAs)
Dispute Resolution	
Choice of Law See new model form option	Alternate Dispute Resolution
Default Remedies	
Charge Interest, Shut-in, Breach of Contract Claim (notably no right to terminate PHA and no security interest). See new model form option	Shut-in, Termination, Grant of Security Interest

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Shelf and Deepwater PHA's – Conceptual Differences

Shelf	Deepwater
Termination Rights	
<p>Historically, Termination limited to:</p> <p>(i) Rejection of commingling permit, (ii) Failure of Host to take production (90 days?), (iii) Casualty to Facility, (iii) Uneconomic Conditions, (iv) Permanent Cessation of Production</p> <p>Notably missing: Termination for Default</p> <p>See new model form option</p>	<p>Owners can terminate with written notice (60-90 days) if: (i) Producers are in Default, (ii) Producers cannot obtain Surface Commingling Permit from BOEM; (iii) Producers' Production is not delivered to Host within a specified period; (iv) *Host Owners notify Producers Host Facility is no longer economic to operate; and (v) *Host Facility is damaged and Host Owners elect not to repair.</p> <p>*provides opportunity for Producers to negotiate purchase of Host Facility</p> <p>Producers can terminate with written notice (60-90 days) if: (i) Host Owners are in Default, (ii) Producers cannot obtain Surface Commingling Permit from BOEM; (iii) Host Facility Capacity is less than 50% of Producers Reserved Capacity; (iv) Producers' Production is not technically feasible or economically justifiable; (v) permanent cessation of Producers' Production; and (vi) Producers elect not to sanction its development project.</p>

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Shelf and Deepwater PHA's – Conceptual Differences

Shelf	Deepwater
Responsibility for Installation of Receiving (Producer's) Equipment?	
<p><u>Producer</u> has the right to install after Host Owner approves;</p> <p>See model form option. Host owner's choice</p>	<p>Host Operator installs after approval of plans by Producer.</p> <p>-Who has liability for the work if done on behalf of Producer? Caveats for negligence?</p>

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Shelf and Deepwater PHA's – Conceptual Differences

Indemnity and Liability

– People?

- Mutual Indemnity (Knock for knock)? Caveat for Gross Negligence?
- Must consider TX and LA Anti-Indemnity Statutes and LA's Marcel Exception

– Property?

- Mutual Indemnity (Knock for knock)? Caveat for Gross Negligence?
- Must consider TX and LA Anti-Indemnity Statutes and LA's Marcel Exception

– Environmental Harm/Loss?

- Shelf: Unilateral Indemnity benefiting the Host;
- Deepwater: Mutual Indemnity

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Other Considerations

- **Use of the Host's Export Pipelines: Free? For a fee?**
- **Allocation of Responsibilities vs. Insurance Products**
- **The Model Form Shelf PHA;**



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Q & A

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Thanks to Panel Members

- **Frank Meyer** **Anadarko**
- **Brett Smith** **W&T**
- **Ford Peters** **Fieldwood**
- **Chad Elias** **Walter**



THE END