



# Model Form Deepwater Production Handling Agreement

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# Model Form Deepwater PHA

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- Outline
  - Review project history
  - Assumptions established
  - Facility animation
  - Key issues
  - Next steps
  - Questions and Answers



# Model Form Deepwater PHA

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## PHA MODEL FORM DRAFTING TEAM

### Drafting

Chevron

Shell

### Consulting

Exxon Mobil



# Model Form Deepwater PHA

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## CASE FOR ACTION

- PHA evaluations, negotiations and contractual agreements are complex.
- No consistent framework relative to terms and conditions of contractual agreements (i.e. lack of standardization).
- Negotiations are time and resource consuming.



# Model Form Deepwater PHA

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## OBJECTIVE

- Facilitate efficient use of time and resources.
- Standardize, but simplify, to extent possible (recognizes that each PHA is unique with its own set of issues/circumstances).



# Model Form Deepwater PHA

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## **DRAFTING PROCESS**

- Assemble and review example forms
- Identify common/unique themes
- Select base form to develop preliminary model form
- Develop guiding principles
- Draft major components
- Draft “Boiler Plate” language



# Model Form Deepwater PHA

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## GUIDING PRINCIPLES

- Standardize but simplify to extent possible
- Facilitate efficiency while negotiating
- Generic
- Broadly applicable
- Simplify in terms of readability
- Basis for making business decisions
- Use as a catalyst for Shelf Model Form PHA



# Assumptions Established

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- Guideline document
- Written for most common development scenarios
  - Subsea tieback to floating, compliant or fixed platform
- Individual circumstances will dictate approach needed



# Tension Leg Platform

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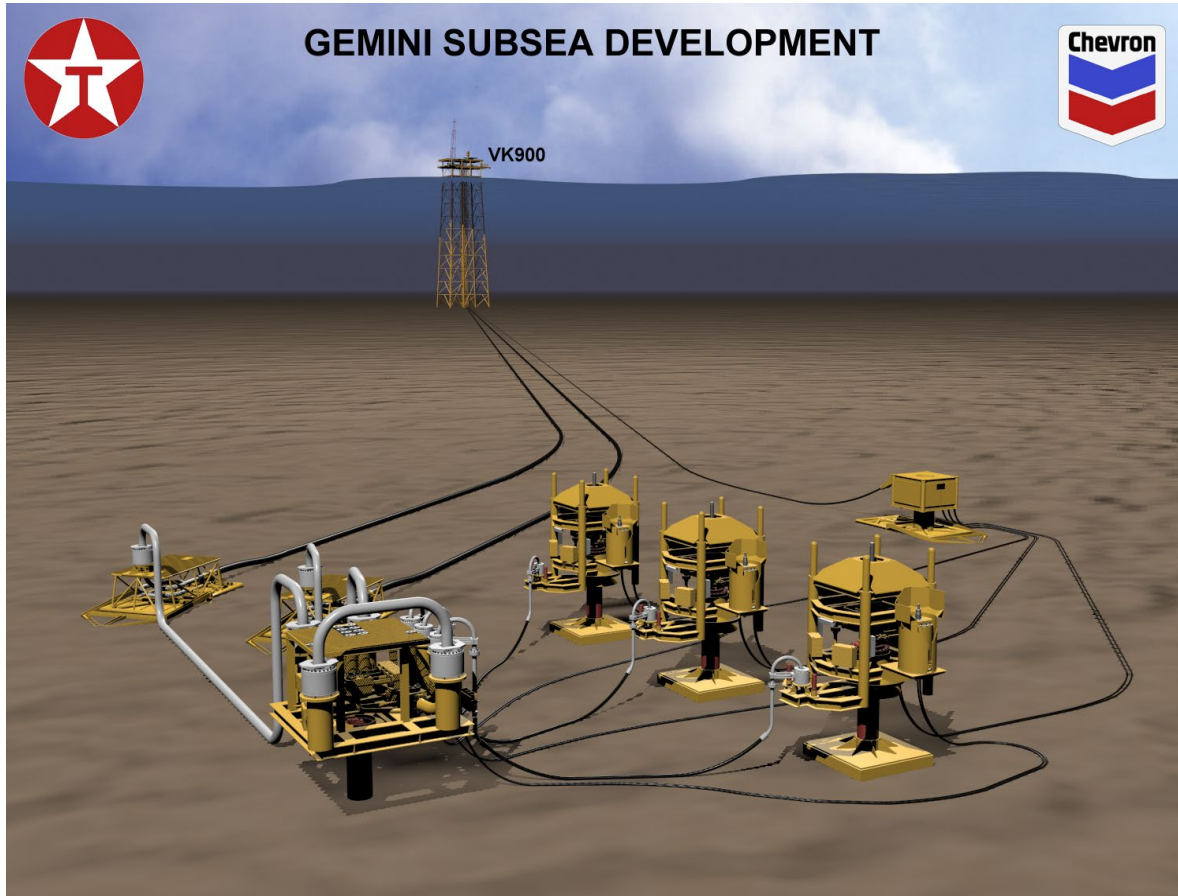


# Spar

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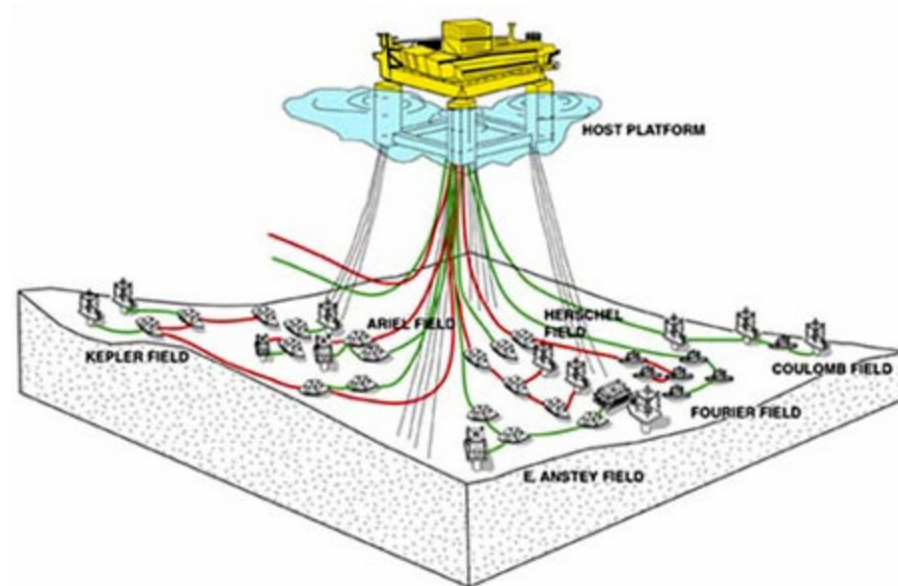


# Subsea Production System



# Multi-Field Development

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**NaKika Facility**



# Model Form Deepwater PHA

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Facility Animation



# KEY PHA COMPONENTS

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- Definitions
- Infrastructure & Facilities
- Services
- Fees and Expenses
- Processing & Handling Capacity
- Metering & Allocation
- Gathering and Transportation
- Suspension of Operations and Force Majeure
- Term, Default, Termination & Continuation of Services
- Liabilities & Indemnification
- Insurance and Bonds
- Exhibits



# KEY ISSUES DISCUSSED

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- Entry Point/Delivery Point on Host
- Satellite Production System
  - Understand Facilities upstream of Entry Point
  - Ownership of equipment located on Host
    - Transfer of equipment raises tax questions
  - Division of responsibilities between Host and Satellite for facilities on Host serving Satellite only.



# KEY ISSUES DISCUSSED

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- Services provided by Host
  - Host operating services
  - Production handling services
- Fees and Expenses
- Capacity
- Accounting Procedures





# KEY ISSUES DISCUSSED

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- Metering and Allocation
  - Use MMS and industry practices
- Gathering and Transportation
  - Required to take in kind
  - Imbalances
- Indemnities



# Expenses

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## Approaches Considered:

- Various expense recovery methods considered (e.g. actual operating expense vs. fixed expenses)
- Operation and Maintenance Expenses (O&M)
  - Directly charge satellite for facilities serving satellite only?
  - Allocate and charge satellite for shared facilities?



# Expenses

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## □ Result

- Satellite Producers pay their pro-rata share of operating and maintenance expenses.
- Calculated by formula.
- Satellite Operator invoiced monthly.



# Access Fees

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## Approaches Considered:

- ❑ Volumetric or Upfront? Or combination?
- ❑ Investment Recovery Component?
- ❑ Profit Component?
- ❑ Is this in addition to shared O&M Expenses?
- ❑ Is this in lieu of shared O&M Expenses?
- ❑ Upfront boarding fee?



# Access Fees - Result

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- Infrastructure Access Fee
- Rejected initial upfront boarding fee
- IAF designed to cover:
  - Access to Host
  - Utilization of Host facilities, deck & riser space
  - Services provided by Host Owners
  - Other



# Access Fees - Result (Continued)

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- ❑ Volumetric based fee
- ❑ Premium for firm capacity
- ❑ Fee adjusted annually
- ❑ Minimum monthly fee (associated with firm capacity)
- ❑ Is in addition to shared O&M expenses



# Invoicing and Payments

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Approaches Considered:

- ❑ Monthly Billing and Payments
- ❑ Accounting Procedures
- ❑ Overhead



# Invoicing and Payment - Result

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As currently drafted PHA provides:

- Certain fees billed operator to operator
  - O&M
  - Installations of equipment on Host
- Other fees billed by Host Operator to each Producer
  - Infrastructure Access Fee
  - Quality Bank Payments
  - Costs designated as borne by Producers

Will reconsider approach based on comments





# Overhead - Result

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- Host Operator receives overhead rate on O&M and Major Construction.
- No overhead on Infrastructure Access Fee, Deferred Production Compensation and other specified costs.
  - Will reconsider approach based on comments.
- Made a distinction between compensation to Host Operator versus compensation to Host Owners.



# Accounting Procedures

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## Approaches Considered:

- Full blown AP versus pared down version
  - COPAS recommended full blown AP
- Result
  - Pared down version tailored to PHA



# Capacity – Approaches Considered

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- Access
  - Define Host Capacity
  - Establish Capacity Types
    - Interruptible
    - Firm
    - Flow Assurance
  - Interruptible Capacity with Option for Firm Capacity
  - Grant utilization of Flow Assurance Capacity
  - Will consider simplification based on comments.



# Capacity - Result

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- Remains work in progress.
- Received numerous comments on Flow Assurance and Interruptible Capacity and how each fits into scheme.



# Production Prioritization

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## Approaches Considered:

- Establish Constraint Types
  - Processing facilities
  - Export Pipeline System
- Provide for utilization of Host Capacity in event of constraints



# Production Prioritization - Results

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- Interruptible
  - Reduced or suspended based on Host Ullage
- Firm
  - Reduced on a pro-rata basis
- Formulas given for each calculation
- Host production proportionately reduced only in firm pro-rata reduction



# Status

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## Remaining Activity

Revise PHA	1Q-06
OCS Committee Endorsement	Mid-06
AAPL Forms Committee Approval	Mid-06
AAPL Board Approval	Late-06



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# QUESTIONS AND ANSWERS

