Model Form Deepwater Production Handling Agreement

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Model Form Deepwater PHA

Outline

- Review project history
- Assumptions established
- Facility animation
- Key issues
- Next steps
- Questions and Answers
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PHA MODEL FORM DRAFTING TEAM

Drafting
Chevron
Shell

Consulting
Exxon Mobil
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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.
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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).
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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
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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

- 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
Spar
Subsea Production System
Multi-Field Development

NaKika Facility
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Facility Animation
KEY PHA COMPONENTS

- 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

- 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

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

- Metering and Allocation
  - Use MMS and industry practices

- Gathering and Transportation
  - Required to take in kind
  - Imbalances

- Indemnities
Expenses

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

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

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

- 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)

- 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

Approaches Considered:
- Monthly Billing and Payments
- Accounting Procedures
- Overhead
Invoicing and Payment - Result

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

- 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

Approaches Considered:

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

- 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

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

Approaches Considered:

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

- 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

Remaining Activity

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