

32302

AGREEMENT FOR USE OF WILMINGTON FAULT BLOCK UNIT FACILITIES FOR PICO PRODUCTION

This Agreement for Use of Wilmington Fault Block Unit Facilities for Pico Production (the "Agreement") is made and entered into as of this 1st day of April, 2011, by and between:

The City of Long Beach ("City"), a municipal corporation, acting in its capacity as Unit Operator for Unit Segments I and II, under Unit Agreements, Fault Block Units II, III, IV and V Ranger Zone, and as operator of certain non-unitized formations in Fault Blocks I, II, III, IV, V and VI in the Wilmington Oil Field, Los Angeles County, California, collectively referred to as the West Wilmington Oil Field

And

Oxy Long Beach, Inc. ("OLBI"), a Delaware corporation.

City and OLBI may be individually referred to as the "Party" or collectively referred to as the "Parties".

RECITALS

- A. The Unit Operator of the West Wilmington Oil Field operates various facilities and systems ("General Facilities") that support oil and water processing and injection operations for the West Wilmington Oil Field.
- B. The Unit Operator of the West Wilmington Oil Field has entered into various contracts that designate OLBI's subsidiary, Tidelands Oil Production Company, as Field Contractor to handle the day-to-day operations for the West Wilmington Oil Field.
- C. OLBI, in its capacity as operator under those certain leases respecting the property commonly known as 1065 West Pier E Street, Long Beach, California, Wilmington Oil Field, Los Angeles County, California ("Pico"), has plans to redevelop Pico, which may increase Pico oil production, water production, and water injection.
- D. City will allow OLBI to utilize the West Wilmington Oil Field General Facilities to process its fluids from Pico, pursuant to the terms and conditions set forth herein.
- E. The Unit Agreements for Fault Block Units II, III, IV and V Ranger Zone (collectively, the "Unit Agreements") allow the Unit Operator to enter into

Cooperative Agreements with owners of Non-unitized Formations for purposes of commingling production and sharing operating costs.

- F. The Unit Operating Agreements for Fault Block Units II, III, IV and V Ranger Zone (collectively, the “Unit Operating Agreements”) provide methods to allocate charges for operating General Facilities between persons owning working interests in the Unitized Formations and those owning such interests in Non-unitized Formations.

NOW, THEREFORE, for the consideration of the mutual promises set forth herein, it is agreed as follows:

AGREEMENT

- 1.0 Monthly Processing Fee. OLBI shall pay a monthly fee (“Processing Fee”) to the Unit Operator for all Pico oil, gas, and water sent to the General Facilities for processing and for all pressurized injection water delivered from the General Facilities to Pico. The Processing Fee will be derived for each month based on the cost allocation methods currently in place for unit and non-unit operations in accordance with the Unit Operating Agreements, Exhibit F “Accounting Procedure,” a copy of which is attached hereto as Exhibit A. The basis of cost allocations relevant for the monthly Processing Fee shall be (1) oil volume, water volume, and gross volume for fluid sent from Pico to the General Facilities and (2) injection volume for pressurized water sent from the General Facilities to Pico. The Processing Fee shall be based on an allocation of all costs relating to services and materials for processing produced fluids and delivering pressurized injection water, including but not limited to costs for dehydration, water clarification, oil shipping, electricity, field labor, field supervision, and a 6% administrative overhead. All of the General Facilities operating and maintenance costs for each month will be allocated in direct proportion to the volumes of oil and water processed and delivered for the respective month.
- 2.0 Monthly Capital Fee. OLBI shall pay a monthly fee (“Capital Fee”) to the Unit Operator in the amount of \$.04 per barrel of gross fluids delivered from Pico to the General Facilities for processing. The Capital Fee is intended to cover capital investments previously made to construct the General Facilities. Future capital investment costs associated with the General Facilities will be allocated using the methodology in Section 1.0 or an alternate approach, as appropriate and mutually agreed to by City and OLBI.
- 3.0 Construction and Operation of Pico Tie-in. OLBI will be responsible for all engineering, permitting, construction and ongoing operating activities and costs associated with the Pico tie-in to the General Facilities. OLBI operating responsibilities cover all pipelines and equipment outside of the production and injection custody points of that certain water plant located within the General Facilities commonly known as the Z Water Plant. The custody transfer of oil and gas

production shipped from Pico to the Z Water Plant occurs at the first 12” mainline block valve as the pipeline enters the Z Water Plant. The custody transfer of high pressure water shipped from the Z Water Plant to Pico occurs at the 12” emergency shut-down valve located in the Z Water Plant.

- 4.0 Metering and Laboratory Testing. All Pico oil, water and gas volumes processed by the General Facilities and all water sent from the General Facilities to Pico shall be measured using meters paid for by OLBI. The Parties agree that the meters shall be calibrated at least once per year and under mutually agreeable conditions. Either Party shall notify the other at least ten days prior to the calibration of the meters, for purpose of witnessing the calibration.

Pico well testers will be used as the basis for calculating Pico oil and water volumes shipped to Tidelands. Pico wells will be tested at least once per month and well test data shall be made available to the Unit Operator upon request. The Pico well tests will be corrected using the monthly Tidelands oil correction factor which is the ratio of the actual oil volume shipped at the Tidelands ACT unit to the oil volume calculated using the individual well test data and operating times. Pico gas volumes will be based on meter readings from the Pico casing gas gathering line and gas volumes from well production strings will be assumed zero for gas accounting purposes.

OLBI will measure individual well API gravity and casing gas mmbtu content on an annual basis, at a minimum, using standard industry procedures. API gravity will be measured more frequently on new wells as needed until gravity readings stabilize.

OLBI will submit monthly production and injection statements to City providing the following monthly Pico data as it relates to Tidelands processing: oil volume, gas volume, produced water volume, injected water volume, weighted average API gravity, and gas mmbtu content.

- 5.0 Fluid Quality Specifications. All Pico fluids sent to the General Facilities shall be compatible and any chemical additives for processing or workover operations shall not cause upsets to the General Facilities operations.
- 6.0 Priority. In the event of limitations with respect to General Facilities processing and injection capacity, the West Wilmington Oil Field shall always have priority of use. The West Wilmington Oil Field shall have priority for using all water available for injection purposes, with the exception of a water volume equivalent to the amount of water sent from Pico to the General Facilities for a given period.
- 7.0 Audits. City may conduct an audit annually to ensure that OLBI is compliance with the terms of this Agreement. Such audits shall be conducted within twenty-four (24) months of the end of the applicable calendar year and all records shall be considered true and correct unless written exception is taken to any charges or expenses contained in those records within the applicable twenty-four (24) month period.

During the first eighteen (18) months of this Agreement, OLBI will waive the annual audit limitation and make reasonable accommodations to the extent that is necessary for OLBI and City to verify that the accounting has been carried out in accordance with the terms of this Agreement.

- 8.0 Termination. This Agreement shall terminate when either Pico or the West Wilmington Oil Field are no longer producing oil, whichever occurs first, or by mutual consent of the Parties.
- 9.0 Indemnity. OLBI shall indemnify, defend and hold harmless City and the West Wilmington Oil Field participants, including the State of California, from and against all losses, claims, costs, expenses, damages, or liabilities arising from its negligent performance of its obligations hereunder.
- 10.0 Force Majeure. The obligations of the Parties, except payment of charges due, shall be suspended while any Party is prevented from complying, in whole or in part, by strikes; lockouts, fire; war, civil disturbance; acts of God; federal, state, county or municipal laws, orders, rules or regulations; inability to secure materials, unavoidable accidents; or other causes beyond its reasonable control, whether or not similar to the matters specifically enumerated above, except financial inability to discharge obligations when due. The Party claiming suspension shall give prompt notice and shall use its best efforts to promptly cure the cause of the suspension. Upon cessation of the cause for suspension, continued performance shall commence as soon as reasonably practicable. In the event substantial suspension continues beyond ten (10) consecutive days, the other Party may terminate this Agreement upon five (5) days prior written notice.
- 11.0 Notices. All notices to be sent under this Agreement shall be in writing and shall be deemed given when deposited with the United States Postal Service as first class mail, with postage pre-paid, or when sent by facsimile or email to either Party at the appropriate addresses.

City:

City of Long Beach
2400 E. Spring Street
Long Beach, CA 90806
Attn: Gas & Oil Operations Manager

OLBI:

Oxy Long Beach, Inc.
111. W. Ocean Blvd., Suite 800
Long Beach, CA 90802
Attn: Ray Zeoli


12.0 Modifications. This Agreement shall not be modified unless in writing and signed by the Parties.

13.0 Applicable Law. All disputes arising from this Agreement shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

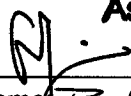
“OLBP”:

Oxy Long Beach, Inc.

By: 
Name: Frank Konin
Title: President / GM

“City”:

City of Long Beach, acting in its capacity as Unit Operator for Unit Segments I and II, under Unit Agreements, Fault Block Units II, III, IV and V Ranger Zone

By: 
Name: Patrick H. West
Title: City Manager
EXECUTED PURSUANT TO SECTION 301 OF THE CITY CHARTER.

APPROVED AS TO FORM

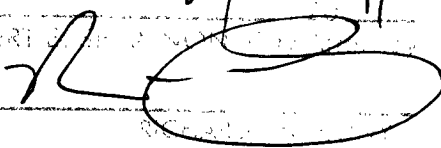
8-4 11
By: 
DEPUTY CITY MANAGER

Exhibit A

**Copy of Unit Operating Agreement, Exhibit “F”
Accounting Procedure**

**UNIT OPERATING AGREEMENT
FAULT BLOCK V RANGER ZONE UNIT,
WILMINGTON OIL FIELD
LOS ANGELES COUNTY, CALIFORNIA**

**EXHIBIT "F"
ACCOUNTING PROCEDURE**

This Accounting Procedure is attached to and referred to in the Unit Operating Agreement Fault Block V Ranger Zone Unit, Wilmington Oil Field, Los Angeles County, California, dated August 1, 1963.

ARTICLE 1

DEFINITIONS

1.1 **UNIT OPERATING AGREEMENT DEFINITIONS.** The definitions in the Unit Agreement referred to in said Unit Operating Agreement are adopted for all purposes of this Accounting Procedure.

1.2 **ACCOUNTING PROCEDURE DEFINITIONS.** In addition to the definitions in the Unit Agreement the terms hereafter set forth shall have the following meanings:

1.2.1 **AGREEMENT** shall mean the Unit Operating Agreement.

1.2.2 **CURRENT NEW PRICE** shall mean the price for new material, on the date of transfer to or from the Property computed on one of the following bases, less all discounts other than for cash customarily taken by the Unit Operator accounting with respect thereto:

(i) — Tubular goods 2" in diameter and larger (regardless of quantity) — mill price plus all rail transportation to the nearest railway receiving point in carload lots.

(ii) — Major items of equipment, such as, but not limited to derricks, tanks, boilers, 50 cfm. and larger compressors, engines, 3" and larger pumps, 3 HP and larger motors, oil and gas separators (traps), pumping units, gear reduction units, tubing heads, spool heads, distribution transformers, weighmeters, slipover adapters, adapter or landing flanges, 3000# working pressure (4" and larger) valves — f.o.b. the nearest reliable supply store.

(iii) — Small items such as, but not limited to valves, fittings and supplies — f.o.b. the nearest reliable supply store, but if such prices cannot conveniently be determined, then the regular storehouse prices of Unit Operator.

1.2.3 **PROPERTY** when used with respect to a cost incurred by the Unit Coordinator, a Unit Operator, a Field Contractor or a Working Interest Owner shall mean all real and personal property owned by one or more Working Interest Owners and which is subject to the Agreement if and to the extent such property is then subject to utilization for Unit Operations; Property when used with respect to a cost incurred by the owner of General Facilities shall mean General Facilities.

1 1.2.4 SALARY OR WAGES shall mean the compensation paid to an employee, plus
2 that portion of taxes and assessments imposed by governmental authority on or measured by the
3 pay of such employees and any group insurance, workmen's compensation insurance, employer's
4 liability insurance, sick plans (not recoverable from insurance), holiday pay, incentive pay,
5 vacations, travel allowance, pension plan or thrift plan, and other benefits generally accorded
6 to such employees and attributable to such compensation.

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8 ARTICLE 2

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10 PURPOSE

11 The purpose of this Accounting Procedure is to establish equitable methods and rates for
12 ascertaining costs, charges, and credits applicable to Unit Operations, whether incurred by Unit
13 Coordinator, a Unit Operator, a Field Contractor, or a Working Interest Owner, and for ascertaining
14 chargeable costs, charges and credits incurred by the owner of General Facilities. The parties agree,
15 however, that if at any time, or from time to time, any of such methods or rates prove unfair or
16 inequitable to Unit Coordinator, a Unit Operator, the Working Interest Owners or the owners of
17 General Facilities, the parties will negotiate in good faith such changes in methods and rates as are
18 necessary to correct any unfairness or inequity, to the end that no Person shall gain or lose by virtue
19 of being Unit Coordinator, a Unit Operator, or (as to operating costs) the owner of General Facilities.
20 No change in accounting procedures, methods or rates shall be adopted without the Approval of
21 the Working Interest Owners.
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24 ARTICLE 3

25 RECORDS AND STATEMENTS

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27 3.1 RECORDS. Each Unit Operator shall at all times maintain and keep true and correct
28 records with respect to its Unit Segment of the production and disposition of all Unitized Substances
29 and of all chargeable costs and expenses incurred with respect to such Segment. Each Unit Operator
30 shall maintain records of production and costs for each individual well, separate and distinct from
31 the production and cost records of each and every other individual well. Unit Coordinator shall keep
32 such other data as is necessary or proper for the settlement of accounts among the Working Interest
33 Owners under the Agreement. Each other Person incurring costs chargeable to another Person
34 under the Agreement shall maintain and keep true and correct records thereof. Such records shall
35 be open for inspection as provided in Article 4.2.9 of the Agreement.

36 3.2 STATEMENTS BY UNIT OPERATORS TO UNIT COORDINATOR. On or before
37 the 5th day of each month, each Unit Operator shall submit to Unit Coordinator a statement of all
38 Unitized Substances produced and of Unitized Substances shipped from its Unit Segment and of all
39 costs and expenses chargeable to Unit Expense incurred by such Unit Operator during the second
40 preceding calendar month. Unless otherwise Determined by the Working Interest Owners, such
41 statements of costs and expenses shall be in summary form by such Unit Operator's account and
42 subaccount classifications.
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3.3 STATEMENTS OF WORKING INTEREST OWNERS TO UNIT COORDINATOR. On or before the 25th day of each month, each Working Interest Owner shall submit to the Unit Coordinator a statement of any costs and expenses incurred by such Working Interest Owner during the preceding calendar month which are chargeable as Unit Expense under the Agreement.

3.4 STATEMENT OF UNIT COORDINATOR TO WORKING INTEREST OWNERS. Based on statements referred to in Articles 3.2 and 3.3, Unit Coordinator shall submit to each Working Interest Owner on or before the 20th day of each month a combined statement including the chargeable costs and expenses incurred by Unit Coordinator applicable to the second preceding calendar month.

ARTICLE 4

PAYMENT

4.1 PAYMENT TO UNIT COORDINATOR. Any amount due Unit Coordinator from a Working Interest Owner, as reflected by a statement issued by Unit Coordinator, shall be paid within ten days from receipt of the statement by the Working Interest Owner. No payment or acceptance of payment shall prejudice the right of a Working Interest Owner to protest the correctness of any statement; provided that neither a Unit Operator nor Unit Coordinator shall be required to adjust any item on a statement unless a written claim therefor is presented to Unit Coordinator within eighteen months from the close of the calendar year to which such statement applies. No adjustment favorable to a Unit Operator or Unit Coordinator shall be made unless claim is made against Working Interest Owners within the same prescribed period, or unless it is in connection with a claim of a Working Interest Owner.

4.2 PAYMENT BY UNIT COORDINATOR. Upon receipt of payments from Working Interest Owners pursuant to statements issued under Article 3.4 above, the Unit Coordinator shall, within ten days from receipt of such payments, remit to each Unit Operator or Working Interest Owner entitled to any portion of such payments the amount to which such Person is entitled.

ARTICLE 5

CHARGEABLE COSTS

Chargeable costs shall include all matters of Unit Expense incurred in connection with Unit Operations and General Facilities and, without in any way limiting the generality of the foregoing, shall include the matters listed in the following sections of this Article 5 and materials and equipment supplied in accordance with Article 6. Insofar as practicable, all costs shall be ascertained by direct charges to Unit Wells and to types of facilities or services (or to individual facilities if required by Article 5.2) in preference to allocations.

5.1 COSTS ASSIGNABLE TO UNIT WELLS.

(a) Development Costs: These will include all directly assigned and allocated labor, equipment, materials, and services, and shall be segregated as between tangible and intangible costs, and separately reported with respect to water injection wells and oil wells.

(b) Operating and Maintenance Costs: These will include all directly assigned and allocated labor, equipment, materials and services and shall be segregated as among routine

1 or normal lifting costs, special well work, redrills, major remedial well work and abandonment
2 costs, and separately reported with respect to water injection wells and oil wells.

3 5.2 COSTS ASSIGNABLE TO GENERAL FACILITIES AND SERVICES FOR UNIT
4 OPERATIONS AND NON-UNIT OPERATIONS. Each Person who owns or operates General
5 Facilities and provides services for Unit Operations and Non-Unit Operations shall separate all costs
6 attributable thereto (including building, automotive, tools and power expense) according to the
7 type of the facility or service; provided, however, if by reason of changed circumstances, such separa-
8 tion of costs fails to permit a reasonably accurate allocation of costs as between Unit Operations and
9 Non-Unit Operations, then such costs as may be necessary to make a reasonably accurate allocation
10 shall be kept separately.

11 Facilities and services shall be divided into the following types, and all chargeable costs for the
12 respective types shall be allocated on the following bases:

<i>Types of Facilities and Services</i>	<i>Bases of Allocation</i>
1. Dehydration	Quantity, as between Unitized and Non-Unitized Formations, of gross liquids (water and oil) produced.
2. Waste Water Disposal	Quantity, as between Unitized and Non-Unitized Formations, of oil well waters produced.
3. Oil Shipping	Quantity, as between Unitized and Non-Unitized Formations, of net oil production.
4. Oil Gathering 5. Gas Gathering and Fuel 6. Fresh Water	} Number of oil wells served by the facility then open to production (whether or not idle).
7. Power Distribution Systems A. Electric Power Distribution —	A periodic determination of the percentage amount of operating load for each type of facility, and assign costs accordingly. The percentage amount applied to oil wells will be further allocated on quantity as between Unitized and Non-Unitized Formations of gross liquid (water and oil) produced.
B. Power Oil Systems	Quantity of gross liquids (water and oil) produced from the wells served by such system.

8. Other Services	Number of oil wells, water injection wells and water source wells (whether or not idle)	1
A. Reconditioning Material		2
(Cleaning and Minor		3
Repairs)		4
B. Operating Supplies		5
C. Lease Cleanup		6
D. Roads		7
E. Testing and Metering		8
F. Tools (Other than Rental)		9
G. Other		10

If, at any time in the future, facilities are added having a use or function different from that of any existing facility, or, if existing facilities should have a use or function different from that of the present, then the cost thereof shall be segregated and allocation will be in accordance with its new use or function as determined by the Working Interest Owners.

5.3 FIELD LABOR AND RELATED COSTS. Subject to the provisions of Article 7.10 of the Agreement, charges for the costs of services of those employees of a Unit Operator, of its Field Contractor, and of the owner of General Facilities who are field labor and who perform work in the Field, shall be an amount equal to the Wages of such employees and all expenses attributable to such employees, including the cost of transportation, materials and supplies, utilities, and operation and maintenance of buildings and facilities.

5.4 FIELD SUPERVISION, FIELD ACCOUNTING AND FIELD ENGINEERING. Subject to the provisions of Article 7.10 of the Agreement, charges for the cost of services of those employees (other than field labor) of a Unit Operator and of its Field Contractor, and of the Owner of General Facilities who perform work in the Field or whose time is assigned to the Field on some equitable bases and have a rank no higher than District Superintendent or District or Principal Petroleum Engineer, and employees covered by this paragraph, of a Unit Operator and its Field Contractor performing duties in connection with oil-and-gas producing operations in the Field whose work is performed other than in the Field, shall be an amount equal to the salaries of such employees and all expenses attributable to such employees, including the cost of transportation, materials and supplies, utilities, operation and maintenance of field headquarters offices, building and facilities.

If any employee referred to in this Article 5.4 is assigned to work of a kind not related to oil and gas operations in the Field for any substantial period of time, the salary and expenses of such employee attributable to such work shall be excluded in making the following assignments of costs.

Such costs shall be assigned on the basis of net costs, exclusive of costs chargeable under this Article 5.4, to: (1) Capital expenditures for Unit and Non-Unit Wells; (2) Operation and maintenance of Unit and Non-Unit Wells; (3) Operation, maintenance and capital expenditures for General Facilities; (4) Operation, maintenance and capital expenditures for the services referred to in item 8 of Article 5.2; (5) Operation, maintenance and capital expenditures for Non-Unit Operations which are related to oil and gas operations in the Field.

5.5 ADMINISTRATION OVERHEAD. Charges for (a) the costs of all services of employees of a Unit Operator, of its Field Contractor, and of an owner of General Facilities, other than those compensated in accordance with Articles 5.3, 5.4 and 5.11 hereof, (b) the costs of having, maintaining and operating all offices not compensated for under Articles 5.3 and 5.4 hereof, and

1 (c) except as otherwise provided in Article 5.9 hereof, the costs of all services of professional
2 consultants, shall be an amount equal to 6% of all amounts chargeable to Unit Expense except
3 amounts chargeable under Articles 5.9 and 5.12 hereof, any amount paid or chargeable for water
4 for injection, amounts paid as rental to Unit Operators as owners of General Facilities, buildings
5 and land, and any amount computed in accordance with this Article 5.5, but with a deduction on
6 account of any credit occasioned by the distribution of material or equipment removed from use
7 on the Property. The amount chargeable under this Article 5.5 with respect to construction of
8 any gas-processing or repressuring plant, any salt-water-treating or compression plant, or any other
9 comparable project shall be on a basis Approved by the Working Interest Owners for the specific
10 project involved.

11 5.6 TRANSPORTATION. The actual cost of purchased transportation not otherwise com-
12 pensated for, incurred for the transportation of employees, equipment, material and supplies to and
13 from the Property, except:

14 5.6.1 No charge shall be made for moving equipment, material, and supplies from Unit
15 Operator's storehouses or other property of the Unit Operator to the Property for a distance
16 greater than would be necessary to move such equipment, material, and supplies from the nearest
17 reputable supply store where such items are available to purchasers generally, except as provided
18 in Article 6.7 hereof, or as Determined by the Working Interest Owners in special cases.

19 5.6.2 No charge shall be made for moving surplus equipment and material from the
20 Property to Unit Operator's storehouse for a distance greater than to the nearest point where
21 such surplus equipment and material could be sold at reasonable prices, nor shall a charge be
22 made for moving materials for use other than for Unit Operations without the Approval of the
23 Working Interest Owners.

24 5.7 OUTSIDE SERVICES. The amount paid by Unit Operator for contract services and
25 utilities, including water for injection procured from outside sources to the extent chargeable to
26 Unit Expense under the Agreement and not otherwise compensated for.

27 5.8 UNIT OPERATOR'S BUILDINGS, TOOLS, AUTOMOTIVE AND OTHER EQUIP-
28 MENT. For Unit Operator's exclusively-owned tools, automotive and other equipment a charge based
29 on the actual usage at rates which are commensurate with the cost of ownership and operation and
30 which are Approved by the Working Interest Owners but in no event in excess of rates currently
31 prevailing for like service and equipment in the Field. Rental of buildings charged at rates established
32 in accordance with Article 9.11 of the Agreement. Such rates shall be revised from time to time if
33 found to be either excessive or insufficient, but not more often than once every 12 months, provided,
34 however, that any revision in rates agreed upon shall not be applied retroactively. Drilling tools and
35 other equipment owned by a Unit Operator and lost in the hole or damaged beyond repair shall
36 be charged as if supplied in accordance with the provision of Article 6 hereof.

37 5.9 CLAIMS AND LITIGATIONS. Amounts paid for expenses of litigation, liens, judg-
38 ments, and settlement of claims chargeable to Unit Expense under the Agreement and not recovered
39 from insurance, provided that no charges for services of Unit Operator's or Unit Coordinator's legal
40 staff or for fees or expenses of outside attorneys shall be made without the Approval of the Working
41 Interest Owners.

42 5.10 INSURANCE. The net premium cost paid by a Unit Operator for insurance carried
43 for the benefit of the Working Interest Owners, but only if such insurance is specifically authorized
44 under Article 14.2 of the Agreement.

5.11 PURCHASING AND STORES ALLOWANCE. To cover Unit Operator's cost of ordering, handling and storing materials, equipment, and supplies, Unit Operator shall make the following charges:

5.11.1 One percent (1%) of the cost of materials, equipment, and supplies delivered from vendor direct to the Property subject to a maximum allowance of \$75.00 for each invoice.

5.11.2 Four percent (4%) of the cost of tubular goods 2" in diameter and larger, and major equipment such as but not limited to the items listed in Article 1.2.2 (ii) and other large units delivered from Unit Operator's storehouse to the Property.

5.11.3 Eight percent (8%) of the cost of all other material and supplies delivered from Unit Operator's storehouse to the Property.

These charges are in lieu of any other charge for the cost of operating, maintaining and renting Unit Operator's purchasing and warehousing facilities.

5.12 TAXES. Taxes paid by Unit Coordinator, a Unit Operator, a Working Interest Owner or the owner of General Facilities shall be charged in the manner and to the extent provided in Article 12 of the Agreement.

5.13 MISCELLANEOUS. The amounts paid for permits, licenses, bonds, and recording and filing fees.

5.14 CREDITS RECEIVED BY UNIT OPERATOR. Credits received by Unit Operator for services or use of facilities, the costs of which have been included in Unit Expense, shall be credited to Unit Expense.

ARTICLE 6

MATERIAL AND EQUIPMENT ACCOUNTING

All material and equipment purchased from outside sources and furnished directly to the property shall be charged at actual cost to the Unit Operator after deducting all discounts received by the Unit Operator.

The basis for valuing other material and equipment furnished to, and material and equipment transferred within or removed from, the Property by a Unit Operator will be as follows:

6.1 NEW MATERIAL AND EQUIPMENT. (Condition "A"). New material and equipment will be valued at the Current New Price thereof less any available discount for cash.

6.2 USED MATERIAL AND EQUIPMENT. (Condition "B"). Used material and equipment which is in a sound and serviceable condition and suitable for use without repair or reconditioning will be classed as Condition "B" and will be valued at seventy-five percent (75%) of Current New Price of like material and equipment.

6.2.1 Material and equipment which will be suitable for further use after repair and reconditioning will also be classed as Condition "B" and will be valued at seventy-five percent (75%) of Current New Price of like material and equipment; the cost of such repair or reconditioning will be borne by the Person receiving the credit therefor.

6.3 MATERIAL AND EQUIPMENT TRANSFERRED. Controllable material and equipment transferred within the Property will be valued at the price originally charged thereto.

1 6.4 MATERIAL AND EQUIPMENT SUITABLE ONLY FOR ALTERNATE USE. Material
2 such as, but not limited to drill pipe, casing and tubing, which is no longer usable for its original
3 purpose but is further usable for some other purpose, will be graded as to condition for such other
4 purpose and valued on the basis of Current New Price of items normally used for such other purpose.

5 6.5 MAJOR MATERIAL AND EQUIPMENT. Items of material and equipment in unusual
6 condition or of unusual character will be valued otherwise than as hereinabove provided, if so deter-
7 mined by the Working Interest Owners.

8 6.6 PETROLEUM. Petroleum and petroleum products will be charged at the amount paid
9 therefor or if not purchased, then at the following prices:

10 6.6.1 gasoline, kerosene and diesel fuel at posted tank-wagon prices;

11 6.6.2 other light oils and lubricating oils, gear oils and greases at posted price-book
12 prices;

13 6.6.3 crude oil at the Market Value of such oil;

14 6.6.4 natural gas and liquefied products thereof at market value.

15 6.7 SCARCE MATERIAL AND EQUIPMENT. If material and equipment are not available
16 due to any cause beyond the control of a Unit Operator through regular sources at normal prices,
17 such material and equipment may be supplied from any available source at the current replacement
18 cost, including transportation to the Property. Where practicable, each Working Interest Owner
19 will be afforded the opportunity of supplying its Unit Participation share of such material and equip-
20 ment in kind.

21 6.8 DEFECTIVE MATERIAL AND EQUIPMENT. No adjustment will be made in charges
22 for material and equipment purchased by a Unit Operator for Unit Operations or furnished new from
23 storehouses or properties of such Unit Operator, which material and equipment are found to be
24 defective, unless and until such Unit Operator receives an adjustment from the manufacturer or
25 vendor thereof.

26 6.9 JUNK, SURPLUS, OR OBSOLETE MATERIAL AND EQUIPMENT. Unusable ma-
27 terial and equipment will be valued at prevailing prices in the district where the Property is located.
28 The net proceeds from the sale of all such material and equipment will be credited currently.

30 ARTICLE 7

31 CHARGES BY PERSONS OTHER THAN AS A UNIT OPERATOR

32 7.1 If a cost or expense incurred by a Working Interest Owner, a Field Contractor, or the
33 owner of General Facilities serves as the basis of a charge pursuant to the Agreement, such charge
34 shall, insofar as possible, be computed in accordance with the foregoing articles hereof.

35 7.2 Chargeable costs and expenses of Unit Coordinator, in discharging his duties as defined
36 in Article 6.5 of the Agreement, shall include costs and expenditures as defined in Articles 5.3, 5.4,
37 5.5 and 5.13 of the Accounting Procedure, and as otherwise provided for in the Agreement, except
38 that employees of Unit Coordinator may be located elsewhere than in the Wilmington Field.
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ARTICLE 8

NO DUPLICATE CHARGES

If a Person in one capacity has made a charge with respect to an item of cost, such Person shall not again in some other capacity make a duplicate charge with respect to the same item. No Person shall charge administrative overhead (pursuant to Article 5.5 hereof) on any item with respect to which any other Person has made a charge which includes administrative overhead computed under Article 5.5 hereof.

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