designated warning areas, the Lessee shall coordinate and comply with instructions from the Commander, Western Space and Missile Center (WSMC) or other appropriate military agency. Such control and instruction will provide for positive control of boats and aircraft operating in the warning areas at all times.

(b) Recognizing that mineral exploration, exploitation and recovery operations on the leased lands can impede tactical military operations, the Lessee acknowledges and agrees that the United States reserves and has the right to suspend temporarily lease operations in the interest of national security requirements. Such temporary suspension of operations, including the evacuation of personnel and appropriate sheltering of personnel not evacuated (an appropriate shelter shall mean the protection of all personnel engaged in operations on the lease for the duration of any Department of Defense activity from flying or falling objects or substances), will become effective upon the order of the Commander, WSMC, other appropriate military agency or higher authority when national security interests necessitate such action. Any temporary suspension of operations for national security may not exceed seventy-two (72) hours, provided that any such suspension may be extended by order of the appropriate authority. Equipment may remain in place during periods of suspension.

(c) The Lessee shall control its own electromagnetic emissions and those of its agents, employees, invitees, independent contractors and subcontractors emanating from individual, designated defense warning areas in accordance with requirements specified by the Commander, WSMC or other appropriate military agency, to the degree necessary to prevent damage to, or unacceptable interference with, Department of Defense flight, testing or operational activities conducted within individual, designated warning areas. Necessary monitoring, control and coordination with the Lessee, its agents, employees, invitees, independent contractors and subcontractors, will be effected by the Commander of the appropriate onshore military installation conducting operations in the particular warning area, provided that control of such elecromagnetic emissions shall permit at least one (1) continuous channel of communication between the Lessee, its agents, employees, invitees, independent contractors or subcontractors, and onshore facilities.

8. <u>ASSUMPTION OF RISK AND HOLD HARMLESS:</u>

Whether or not compensation for damage or injury might be due under a theory of strict or absolute liability or otherwise, the Lessee assumes all risks of injury or damage to persons or property which occurs in, on or above the leased lands to any person or any property of any person who is an agent, employee or invitee of the Lessee, or its agents, independent contractors or subcontrctors, in connection with any activities being performed by or for the Lessee in, on or above the leased lands, if such injury or damage to such person or property occurs by reason of the activities of any agency of the United States, its contractors or subcontractors, or any of their officers, agents or employees, being conducted as a part of, or in connection with, the programs and activities of the WSMC or other appropriate military agency. Notwithstanding any limitations of the Lessee's liability in this lease, the Lessee assumes the risk whether such injury or damage is caused in whole or in part by any act or omission, regardless of negligence or fault, of the United States, its contractors or subcontractors, or any of their officers, agents or employees. The Lessee shall indemnify and save harmless the United States against all claims for loss, damage or injury to the Lessee and to the agents, employees and invitees of the Lessee, its agents, independent contractors and subcontrctors, in connection with the programs and activities of the aforementioned military installations and agencies, whether the same be caused in whole or in part by the negligence or fault of the United States, its contractors or subcontractors, or any of their officers, agents or employees, and whether such claims might be sustained under theories or strict or absolute liability or otherwise.

9. LABOR REQUIREMENT:

(a) During exploration, development and production activities on the leased lands, all vessels, rigs, platforms and other vehicles or structures under the control of the Lessee must be operated by citizens of the United States or aliens lawfully admitted to the United States for permanent residence.

(b) The requirements of subparagraph (a) do not apply if the Lessee files with the State and the Department of Industrial Relations a report, deemed adequate by these agencies, showing that there is an insufficient number of qualified citizens of the United States, or aliens lawfully admitted to the United States for permanent residence, available for such work.

10. DRILLING MUDS AND CUTTINGS

Notwithstanding the provisions of Section 6873(b) of the Public Resources Code, or any other section of State law or this lease, the discharge of drilling muds and cuttings into the marine environment is expressly prohibited. Such prohibition shall remain in effect until the Commission indicates in writing that it is satisfied with the results of appropriate studies showing that the prohibition is no longer warranted. The State Lands Commission may require any additional studies that it deems appropriate to assist it in making such a decision.

11. OIL SPILL RESPONSE CAPABILITY

(a) Lessees shall supply and maintain a dedicated spill control vessel, comparable to Mr. Clean II operated by Clean Seas, Inc., and equipped with the most effective equipment available. The vessel must be capable of being on location in the project area within 2 hours of notification that a spill has occurred. Such vessel shall be available for use in the proposed lease area prior to the consideration and approval of any drilling activities on any lease within the area. Initial capital cost for the vessel and equipment shall not exceed $1,000,000.

Annual costs of operation, including such amounts as needed for a sinking fund to replace equipment, shall not exceed $1,000,000, adjusted for inflation. The annual cost limitation shall be cumulative and at any point in time shall not exceed, but may equal, $1,000,000 (adjusted for inflation) times the number of years the lease has been in effect.

(b) Lessees shall fund semi-annual oil spill response training of the members of the State Interagency Oil Spill Committee (SIOSC) as directed by the Chairman of the SIOSC for the period of the lease. These costs shall not exceed $300,000 per year adjusted for inflation.

(c) The lessees shall fund the establishment, staffing, maintenance, and operation of an open-water oil-spill containment and recovery system capability equivalent to that available from the U.S. Coast Guard Pacific Strike Team, but with the added capability of response time to any part of the lease area of no more than 4 hours. Such capability shall be demonstrated on at least a semi-annual basis by participation in drills conducted under the direction of the State Operating Authority as defined in the California oil spill contingency plan. This funding shall also include amounts necessary to finance monitoring activities of the State Lands Commission and the Department of Fish and Game. Initial capital cost shall not exceed $10,000,000.

Annual costs of operation, including such amounts as needed for a sinking fund to replace equipment, shall not exceed $1,000,000, adjusted for inflation. The annual cost limitation shall be cumulative and at any point in time shall not exceed, but may equal, $1,000,000 (adjusted for inflation) times the number of years the lease has been in effect.

12. SPECIAL STUDIES

(a) When directed by the State Lands Commission, Lessees shall fund studies under the direction and control of the California Department of Fish and Game to provide a biological inventory of the proposed lease area for a full year cycle. Costs for these studies shall not exceed a total of $700,000.

(b) When directed by the State Lands Commission, lessees shall fund a study or studies under the direction and control of the Department of Fish and Game to determine the chronic effect of oil, oil dispersants and a combination of oil and oil dispersants on marine biota, excluding marine birds and mammals. Costs for these studies shall not exceed a total of $300,000.

13. <u>OCEAN FLOOR OBSTRUCTIONS</u>

The Lessee shall provide to the Commission and, upon request, to any member of the public, a map of the exact location of any under sea obstruction on the lease premises either in place at the time of the lease award or placed deliberately or accidentally by the Lessee or its agents on the lease. This map shall be updated at the discretion of the Commission.

14. <u>SEA OTTER STIPULATION</u>

Lessees shall fund (1) studies to determine better the potential effects of oil and gas exploration and production on the sea otter and (2) measures to mitigate the adverse effects of oil and gas exploration and production on the sea otter population.

Content, timing and implementation of these studies and measures shall be determined by the Director of the California Department of Fish and Game, in consultation with the U.S. Fish and Wildlife Service and appropriate members of the public and scientific community. Such studies shall be made available to the public and used by the State Lands Commission in their consideration of subsequent activities undertaken pursuant to this lease. These studies and measures shall include development of an oil spill contingency plan, including stockpiling of equipment and supplies, designed to minimize otter mortality and impacts on otter habitat. Measures to be considered and evaluated include: how (or should) otters be captured, herded, contained, transported, cleaned and rehabilitated.

Funds for these studies and measures (not to exceed a total of five million dollars) shall be deposited, as needed, in a separate account with the Department of Fish and Game at the direction of the State Lands Commission upon acceptance of the study contractors bids by the Commission.

Critical operations during exploratory drilling shall not be permitted between December 1 and April 1 when the State Lands Commission, acting on its own, on the recommendation of the Department of Fish and Game (who shall consult with the U.S. Fish and Wildlife Service) or the public, and pursuant to the Commission's own rules and regulations, determines that the risk of oil spills from such operations is sufficient to damage significantly the sea otter population.

15. ALL SEASON OCEAN CURRENT AND METEOROLOGIC STUDIES

The lessees shall fund a continuing study of oceanographic and meteorologic conditions in the lease area. Such study should include, but not be limited to, the placement of the necessary instrumentation to obtain high-quality measurements of wave, wind, current, and temperature.

Work

performed will be by a contractor and in a manner satisfactory to the State Lands Commission and will consider all work currently underway by others. Costs for these studies shall not exceed $1,000,000 per year, adjusted for inflation, for the life of the lease.

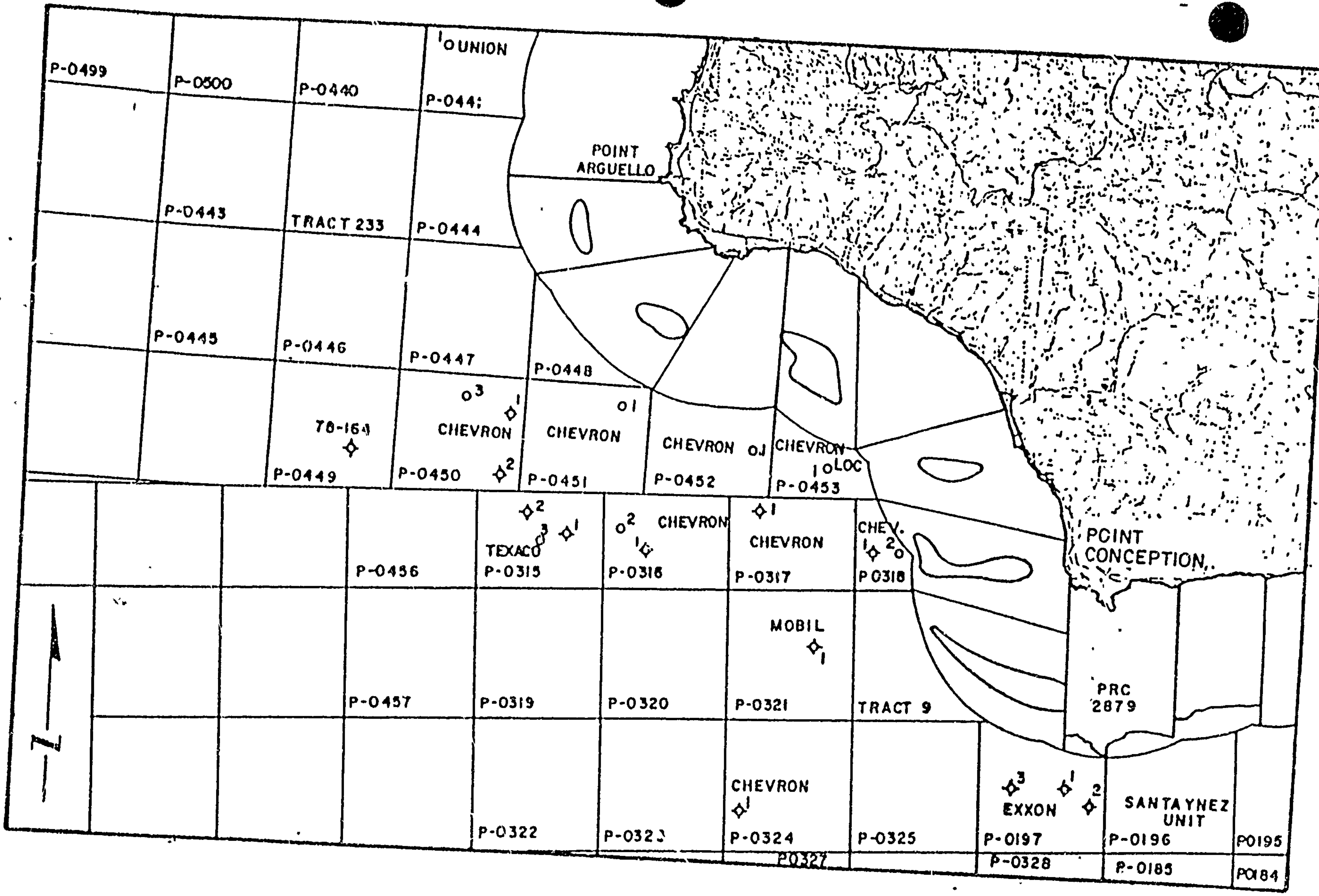

EXHIBIT G

RECOMMENDED TRACT SELECTION

1/83

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EXHIBIT "H"

ACCOUNTING PROCEDURES FOR DETERMING NET PROFIT SHARE PAYMENT FOR STATE OIL AND GAS LEASES

101. Purpose and Scope

(a) These accounting procedures establish methods for determining the Net Profit Share base and calculating Net Profit Share Payments due the State for production from State leases.

(b) These procedures apply to the lease issued by the State under a net profit share bidding system established by Division 6 of the Public Resources code.

102. Definitions

For purposes of these accounting procedures:

"Allowance for Investment Recovery" means the amount of interest calculated according to procedures specified in Section 120. This amount allows the lessee a return on the Costs advanced for the development of the NPSL until recoupment is made from the Production Revenue Account.

"Compensated Personal Absence" means any absence from work for illness, vacation, holidays, jur duty, military training, disability benefits and other customary allowance, for which the lessee pays compensation directly to an employee under an existing paln of the lessee.

"Controllable Material" means material which at the time of inventory is so classified in the Material

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Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Cost" means an expenditure incurred by a lessee in conducting NPSL Operations.

"Cost Pool" means a grouping of incurred Costs identified with more than one lease, whether the leases are NPSL's or other types of leases.

"Credit" means a payment, rebate, or reimbursement to a lessee, exclusive of Production Revenue, in the course of NPSL operations.

"Direct Costs" means any Cost listed in Section III that benefits NPSL Operations; or if the NPSL is subject to an operating agreement in which at least one wprking interest owner is a third party to a lessee, then the direct operating costs for tha NPSL are direct charges that are incurred by the Operator in operating that NPSL that are reimbursable to the Operator by the lessee under terms of that operating agreement.

"Executive Officer" means the Executive Officer of the State Lands Commission, or authorized delegate.

"Field Employee" means an employee below a first level supervisor who is directly employed in the NPSL project area in a field operating capacity.

"First Level Supervisor" means an employee whose primary function in NPSL operations is the direct supervision of other employees and/or contract labor directly employed on the NPSL project area in a field operating capacity.

"G&G" means geological, geophysical, geotechnical and geochemical examinations and other such investigations on or adjacent to the NPSL relating to operations on the NPSL.

"Joint Cost" means any cost listed in Section III that benefits NPSL operations and one or more other operations of the lessee or outside party.

"Lessee" means a person authorized by a State lease, or an approved assignment thereof, to develop and produce oil and gas, including all parties holding such authority by or through the lessee, and the person designated to conduct the NPSL operations.

"Material" means equipment, apparatus, and supplies acquired or held for use in NPSL operations.

"Net Profit Share Base" means the end of the month credit balance in the Development Account. The Net Profit Share Base is the credit balance remaining after subtracting all allowable costs and adding all allowable credits (including production revenue) in accordance with the procedures established by these accounting procedures.

"Net Profit Share Payment" means the portion of the net profit share base payable to the State.

"Net Profit Share Rate" means the fixed percentage share of the net profit share base payable to the State.

"NPSL" means a non profit share lease, which is a State lease that provides for payment to the State of a share of the profits for production of oil and gas from the tract.

"NPSL Operations" means all activities subsequent to issuance of the NPSL necessary and proper for the exploration, development, maintenance, operation, dismantlement, abandonment, and restoration of the NPSL Property according to law or regulation. If all or part of a NPSL is included in a participating area of a unit, a cooperative drilling agreement, or other similar arrangement, such that production (in kind or in value) or Direct Costs are attributed to the NPSL for activities of the unit, the formula or method of governing the attribution of net production or direct cost to the NPSL Tract shall be according to the Unit Agreement which is approved by the State.

"NPSL Project Area" means the NPSL Tract, Offshore Facilities, shore base production facilities, Shore Base Facilities, shore base support facilities, pipelines, and any other such facilities so designated by the Executive Officer which may be necessary and essential to the NPSL Operations.

"NPSL Property" means the NPLS Tract, material and facilities acquired for use in NPSL Operations and that are installed and/or used on the NPSL Tract and any other such property in the NPSL Project Area which may be necessary and esstential to NPSL Operations and the Costs thereof are Direct Costs to NPSL Operations.

"NPSL Tract" means a tract subject to a NPSL.

"State Lease" means a State lease for oil and gas issued by the State Lands Commission.

"State Lease Sale" means the proceeding by which leases for certain State tracts are offered for sale by competitive bidding and during which bids are received, announced, and recorded.

"Offshore Facilities" means platform and support systems located offshore and that are necessary to conduct NPSL Operations, e.g., oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, and navigation aids.

"Outside Party" means any person who is not a lessee.

"Outside Substances" means all substances obtained from any source other than the NPSL tract and used for purposes of production, pressure maintenance, secondary recovery, or other recovery programs that may be employed in the NPSL Operation.

"Person" means a natural person and includes, in addition to a natural person an association, a State or a private, public or municipal corporation.

"Personal Expenses" means travel and other reasonable reimbursable expenses of lessee's employees.

"Production" means all oil, gas and other hydrocarbon products produced, removed, saved and sold from the NPSL Property except so much thereof as used in the conduct of NPSL Operations; or the Production produced, removed, saved and sold which is allocated to the NPSL Tract in accordance with the Unit Agreement, when applicable.

Production does not include oil or gas lost as a result of venting or flaring, spills and line leaks except as caused by the gross negligence or willful misconduct of a Lessee.

"Production Revenue" means the value of all oil and gas Produced saved, removed and sold attributable to an NPSL Property, or, if the tract is unitized, the value of all oil and gas produced saved, removed and sold and credited to the tract under a unitization formula, during a month, which value is determined in accordance with Section 121(a)(2).

"Railway Receiving Point" or "Recognized Barge Terminal" means the location that a vendor would use in determining the sale price to the lessee of new material to be delivered to the NPSL Project Area.

"Shore Base Facilities" means onshore facilities necessary for NPSL Operations including:

(a) Shore base support facilities and piers, e.g., a receiving and transshipment point for material, staging area for shuttling personnel to and from the NPSL Tract, a communication, scheduling and dispatching center; and

(b) Shore base production facilities to include, but not limited to, pumps, gathering systems, pipelines, separating facilities, gas plants, compression facilities, cleaning and dehydration facilities and tankage for production from or allocated to the NPSL Tract.

"State" means State Lands Commission.

"Technical Employees" means those employees having special and specific engineering, geological or other professional skills, and whose primary function in NPSL Operations is the handling and resolution of specific operating conditions and problems for the benefit of NPSL Operations.

"Tract" means land located in the State that is offered for lease through a State lease sale and that is identified by a leasing map or an official protraction diagram prepared by the State.

"Unit Agreement" means unit agreements, cooperative drilling agreements, operating agreements or other similar agreements for the operation of all or any portion of the NPSL Property with all or any portion of any adjoining Properties.

110. Profit share accounts.

(a) For each NPSL Tract, three accounts shall be established and maintained by lessee for NPSL Operations, as follows:

(1) Development account.

This account shall include (i) the direct and allocable joint Costs and Credits incurred for the exploration and development of the NPSL until Production is no longer obtained and there is a cessation of NPSL Operations, (ii) allowance for investment recovery on direct and allocable Joint Costs less Credits as specified in Section _____, (iii) overhead allowances as specified in Section 112. Exploration and development shall include but not be limited to the following opertions:

(1) geological, geophysical, geotechnical and geochemical examinations and other investigations on or adjacent to the NPSL as provided by the lease;

(2) cost of design of construction projects, as defined in an approved NPSL Development Plan;

(3) accumulated Cost of capital work in progress, on or adjacent to the NPSL or on a contractor's premises;

(4) rentals and other payments directly attributable to the NPSL such as lease rental (except rental payable on or before the fourth anniversary date of the lease), licenses or permits, renewal or extension fees, and other similar payments required and made to maintain the interest of the lessee in the NPSL;

(5) drilling costs for wells bottomed on the NPSL, under an approved Exploration Plan or Development Plan;

(6) Costs to acquire, construct and/or install facilities and equipment on or in support

of the NPSL that directly result in or are necessary for continued or enhanced production from the NPSL, under an approved Development Plan;

7. before the commencement of Production, ad valorem tax paid to the state (net of all credits and refunds for municipal ad valorem taxes on the same property) for property used in the drilling described in (5) of this subsection on for property described in (6) of this subsection, that is installed or constructed before the commencement of Production and ad valorem and other taxes paid to one or more municipalities that were incurred directly as the result of, and in the course of, the drilling described in (5) of this subsection and/or the acquisition, installation or construction of property described in (6) of this subsection before the commencement of Production but excluding any franchise, or income taxes.

(2) Production Revenue Account.

The Production Revenue Account shall include Credits reflecting the value of Production from the NPSL Tract or which is allocated to the NPSL Tract under a Unit Agreement, during a month in which value is determined in accordance with Section 121. The account shall be debited with Direct Costs for the operation, maintenance, dismantlement, abandonment and restoration of the NPSL Property, and the overhead allowance specified in Section 112.

(3) Net profit Share Payment Account.

The Net Profit Share Payment Account shall include the amounts of Net Profit Share Base.

(b) NPSL accounts shall be kept on a cash basis. Costs shall include but are not limited to:

(1) Financial obligations for commitments to major projects in progress.

(2) Cash advance payments to contractors or others for which accounting is not yet provided.

(3) Working funds advanced to outside parties for NPSL Operations.

(4) Fixed obligations for return of contractor's equipment.

(5) Payments or obligations required by law for environmental, safety or other regulatory purposes.

(6) Contractor retentions.

(7) Mobilization and demobilization of contractors' personnel, drilling vessels, drilling rigs and other such equipment and services.

(8) Any other Costs incurred or attributable to the

NPSL which are necessary for the exploration, development, maintenance, operation dismantling, abandonment, and restoration of the NPSL Property according to law or regulation.

(9) Abandonment costs.

111. Schedule of Allowable Direct and Allocable Costs and Credits.

The Costs and Credits specified in the following paragraphs of this section may be charged direct, or allocated to NPSL Operations, as appropriate in accordance with Section 114.

(a) Lease rental. All lease rental except those lease rentals for the first four years of the lease.

(b) Labor.

(1)(i) Salaries and wages of field employees, First Level Supervisors and Technical Employees employed in the NPSL Project Area in NPSL Operations, if such Costs are not charged under subparagraph (g) of this section. (ii) Salaries and wages of Technical Employees who are either temporarily or permanently assigned to, and directly employed in the NPSL Operations. Such labor shall be charged on the basis of time reports and hours worked directly benefiting the NPSL Tract.

(2) The cost of compensated personal absence paid to employees whose salaries and wages are chargeable to NPSL Operations under subparagraph (b)(1) of this section.

(3) Expenditures of contributions made pursuant to assessments imposed by governmental authority that are applicable to lessee's costs chargeable to NPSL Operations under subparagraphs (b)(1) and (b)(2) of this section.

(4) Reasonable Personal Expenses, including relocation cost of employees whose salaries and wages are chargeable to NPSL Operations under subparagrpah (b)(1) and (b)(2) of this section and that are paid for which are reimbursed under lessee's normal practice.

(5) Lessee's current Costs of established plans for employee's group life insurance, hospitalization, pension, retirement, stock purchase, dental, thrift, bonds, and other benefit plans of a like nature that are made available to all employees on an equitable basis, applicable to lessee's labor cost chargeable to NPSL Operations under subparagraph (b)(1) and (b)(2) shall be

lessee's actual cost not to exceed the percent currently recommended by the Council of Petroleum Accountants Societies (COPAS).

(6) Charges for expenses incurred under subparagraphs (b)(2)and(b)(5) of this section may be made to NPSL accounts on a "when and as paid" basis or a percentage assessment method. If the percentage assessment method is used, it shall be based upon actual cost experience for the preceeding year expressed as percentage of costs chargeable under subparagraph (b)(1) and (b)(2) of this section, and adjustments shall be made at the end of each fiscal year to balance total charges made to NPSL accounts during the year with the actual costs for the year. Under either method the cost of administering the plan and paying the salaries and benefits defined in this paragraph shall be excluded. In determing actual cost experience of any employee benefit plan, any divided or refunds received applicable to insurance of annuity policies shall be used to reduce the cost of such policies.

(c) Material.

(1) Material purchased or furnished by a lessee as NPSL Property shall be charged or credited

at amount specified in Section 115. The purchase and inventorying of material are subject to conditions and provisions in Section 132.

(2) Credit for salvage or returned material shall be made to the NPSL account originally charged.

(d) Transportation. Transportation of employees and material necessary for NPSL Operations, to,from and within the NPSL Project Area, but subject to the following limitations:

(1) If material is moved to the NPSL Project Area, no charge shall be made to NPSL Opertions for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Executive Officer.

(2) If surplus material is moved from the NPSL Project Area, no charge shall be made to NPSL Operations for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or Railway Receiving Point unless agreed to by the Executive Officer. No charge shall be made to NPSL Operations for moving material to other properties owned by or under the control of a

lessee, unless agreed to by the Executive Officer.

(3) In the application of subparagraph (1) and (2) of this paragraph, there shall be no equalization of actual gross trucking costs of $400 or less, excluding accessorial charges.

(e) Contract services. Except when excluded by paragraph (f) of this section and/or Section 113(d), the cost of services and utilities provided under contract by outside parties and which constitute proper and necessary NPSL Operations or support for NPSL Operations, and rental charges paid to outside parties for the rental of equipment used in the NPSL Project Area in support of NPSL Operations, may be charged to NPSL Operations.

(f) Legal expenses. Expense of handling, investigating and settling litigation or claims, discharging of liens, payments of judgments and amounts paid for settlement of claims incurred in or resulting from NPSL Operations, or necessary to protect or recover the NPSL Property are allowable, except those costs listed in Section 113(g) as unallowable. This includes the salaries and wages of lessee's legal staff and expense of outside attorneys who are assigned to matters described in this paragraph if supported by adequated time records showing the nature of the matter, its direct relationship to NPSL Operations, and the hours spent on the matter.

(g) Rental of equipment and facilities furnished by lessee.

(1)(i) The NPSL accounts shall be charged for the use of equipment and facilities owned by a lessee that are proper and necessary for NPSL Operations, including shore base and offshore facilites and pipelines from the tract to shore base production facilities, and that are not NPSL Property. Rental charges shall be made at rates based upon actual Costs of acquisition, construction, and Operations. Such rates may include labor, the Cost of setting up and dismant'ing equipment, maintenance, repairs, other operating expenses, insurance, taxes, depreciation (calculated using a method consistent with generally accepted accounting principles, consistently applied) and a return on the remaining undepreciated basis not to exceed ten percent (10%) per year except that the Executive Officer may from time to time establish a different maximum percentage. Any Cost of acquiring real property in excess of that reasonably required to support the facilities furnished for NPSL Operations shall not be included in the Cost used to establish these rates. Rates charged shall not exceed average commercial rates. Rates charged shall not exceed average commercial rates for equipment and facilities of similar nature and capability currently prevailing in the vicinity of the NPSL Project Area.

(ii) The term "equipment and facilities" is used in the broad sense to include equipment that may be mobile or semimobile and also installations that may be semipermanent or permanent in nature. Such equipment and facilities listed below shall be charged on the basis indicated.

	Equipment/facilities	Basis of charge
A.	Mobile equipment:	
	Aircraft	Hour
	Automobiles	Mile or hour
	Trucks	Mile or hour
	Tractors	Hour
	Bulldozers	Hour
	Mobile cranes	Hour
	Trailer-mounted test separators	Hour
	Truck-mounted cement mixers	Hour
	Boats	Day or hour
	House	Day
B.	Semimobile equipment:	
	Drill Rigs	Foot or day
	Workover rigs	Hour
	Pulling units	Hour

Derricks	Day
Drilling tender	Day
Barges	Day

C. Semipermanent installations:

Skid-mounted separators	Day or volume
Skid-mounted compressors	Day or volume

D. Permanent installations:

Compressor stations	Volume
Saltwater disposal wells	Volume or wells
Source water wells and supply systems	Volume
Roads	Wells
Production/drilling platform	Volume or wells
Canals	Wells
Dock	Wells
Oil storage and loading facilities	Volume
Gathering systems and pipelines	Volume
ACT systems	Volume
Laboratory services (excluding research work	Hour or unit
Shore base production facilieses	Volume
Shore base support facilities	Wells

E. Miscellaneous:

Drill pipe	Foot or day
Casing setting tools	Day
Well testing equipment	Day

Equipment and facilities that are not listed shall be charged on a basis consistent with the nature of the use.

(2) In lieu of charges in paragraph (g)(1) of this section, the lessee may elect to use average commercial rates prevailing in the vicinity of the NPSL Project Area less 20 percent. For equipment for which no commercial rate exists, the lessee shall submit the basis for determining such costs to the Executive Officer for approval.

(h) Damages and losses to NPSL Property. All Costs necessary for the repair or replacement of NPSL Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other causes not covered by insurance, except those resulting from lessee's gross negligence or willful misconduct. Any settlement received from an insurance carrier should be credited to NPSL Operations when received.

(i) Taxes. All taxes, except income taxes, federal windfall profit taxes, profit share payments, and taxes based upon income, that are assessed or levied upon or in connection with NPSL Operations and which have been paid by the lessee. Allowed taxes shall include, but are not limited to, production, severance, State of California windfall profit taxes if applicable to total production, excise, advalorem, and mineral taxes. Federal windfall profit taxes are allowable until net profit payments to the State commence.

(j) Insurance, Bonds and Letters of Credit.

(1) Net premiums paid for insurance required to be carried and costs of bonds and letters of credit required to be obtained for NPSL Operations. For NPSL Operations in which the lessee may act as self-insurer for Worker's Compensation and Employer's Liability, the lessee may include the risk under its self-insurance program in providing coverage under State and federal laws and charge NPSL Operations at lessee's cost not to exceed manual rates.

(2) NPSL Operations shall be credited for all reimbursements for costs of damage to NPSL Property or personal injury. Reimbursements for damaged NPSL Property shall be credited to the NPSL account charged for the cost of replacement or repair of the damaged NPSL Property.

(k) Communications. Costs of leasing, acquiring, installing, operating, repairing and maintaining communications systems, including radio, microwave facilities and computer production controls for the NPSL Operations. If communication facilities systems serving the NPSL Tract serve Operations and/or facilities outside the NPSL Project Area, charges to NPSL Operations shall be made as provided in paragraph (9) of this section or shall be allocated to NPSL Operations in accordance with Section 114.

(l) Ecological and environmental. Costs incurred in the NPSL Project Area as a result of requirements for archaeological and geophysical surveys relative to identification and protection of cultural resources, mandatory biological and marine mammal resources, fisheries training programs, and other environmental ecological surveys or training programs required by the state or the federal government or other regulatory authority, may be charged to the NPSL accounts. Also, the Costs allocated to the NPSL to provide or have available pollution containment and removal equipment, including payments to organizations and/or funds which provide equipment and/or assistance in the event of oil spills or other environmental damage are allowable. The Costs of actual control and cleanup of oil spills and resulting responsibilities required by law or regulation, applicable laws and regulations are allowable, except that a charge shall not be allowed for any such Costs attributable to the lessee's gross negligence or willful misconduct.

(m) Costs of temporary platforms, feasibility design studies and similar marine projects, for the NPSL Project Area or NPSL Property incurred in compliance with applicable laws, regulations, or plan or development approved by the Executive Officer.

(n) Standby costs incurred while NPSL Operations are deferred, suspended or curtailed by reason of force majeure, law, rule, regulation, or direction of the Executive Officer or the Commander, Western Space and Missile Center (WSMC) or other appropriate military agency. Costs of evacuation of personnel and appropriate sheltering of personnel not evacuated, are an allowable charge when ordered by the Commander (WSMC), or other appropriate military agency or other authority.

(o) Cost of compliance, or training programs for NPSL personnel, for applicable state, federal, or governmental agency laws, regulations or directives that are related to the NPSL Operations in effect at the date of the lease agreement or later enacted or adopted.

(p) Dry or bottom hole contributions to wells drilled by others within 1,489 feet of the exterior boundary of the NPSL for information relative to the exploration or development of the NPSL.

(q) Costs of permits and licenses for the NPSL Operation in the Project area.

(r) Costs of Outside Substances, less cost recoveries, used as injection for production, repressuring, pressure maintenance, cycling or other primary, secondary or tertiary recovery purposes.

(s) Costs of required work commitment for the NPSL.

(t) Charges for cleaning, dehydration, desulphurization, compression, etc., for making the Production marketable.

(u) Dismantling, Abandonment and Restoration Costs of NPSL Property.

Following commencement of production, estimated dismantling, abandonment and removal costs of wells and facilities charged as NPSL Property and restoration of the NPSL Project Area may be included as a direct operating costs, and, if included, must be amortized on a unit-of-production basis. The unit amount amortized per Btu equivalent equals the estimated real cost (i.e., without regard to inflation) determined in accordance with generally accepted accounting principles as of the commencement of production for the NPSL, divided by the number of Btu equivalents represented by the proved reserves of the NPSL as determined under Financial Accounting Standard Board rules as of that time. The amount amortized per Btu equivalent may be redetermined, not more often than once every two years at the commencement of the lessee's fiscal year or later than five years prior to the estimated date of final abandonment of the NPSL Tract, by dividing the number of Btu equivalents represented by the proved reserves of the NPSL as of the time of redetermination into the difference between the then-estimated real cost for abandonment of the wells and facilities on or in support of the NPSL and the cummulative amortization already charged as of that time for the NPSL Property. The amount of dismantling, abandonment and removal costs charged as a direct operating cost and amortized hereunder shall be invested in an interest bearing fund account as a cash reserve for the purpose of paying the final cost of abandonment of the NPSL Project Area. The Lessee and the State shall have the privilege of withdrawing its proportionate net profit percentage share of the earned interest on the anniversary date of the fund account. The selection of the savings institution the periodic interest rates, and withdrawal of funds for the intended purpose shall be approved by the Executive Officer.

If, upon abandonment of all wells and facilities for the NPSL and restoration of the NPSL Project Area, the actual costs there of, less salvage value (if any) are less than the total amount amortized for such purposes for NPSL Property, the excess amortization funded must be included in the Production Revenue account for the purposes of determining a lessee's Net Profit Share Base. If, upon abandonment of all wells and facilities on the

NPSL and restoration of the NPSL, the actual costs thereof, less salvage value (if any), exceeds the total amount amortized and funded for such purposes on that NPSL, the difference may neither be included as a Direct Cost or included as development and production cost for the purposes of determining a lessee's Net Profit Share Base.

(v) Other Costs. Any other Costs not covered in the preceeding Paragraphs of this section and not prohibited by Section 113 that are incurred by the Lessee in the necessary and proper conduct of NPSL Operations and are approved by the Executive Officer.

(w) Other credits. Credits shall be given to the Development or Revenue Production Accounts, depending on when incurred, for NPSL Property leased or used in non-NPSL Operations, and for the sale of information derived from test wells and G&G and for any and all amounts earned or otherwise due a Lessee as a result of NPSL Operations.

112. Overhead Allowance

(a) The Development Account and Production Revenue Account shall be charged the respective overhead allowance for Direct Costs and allocable joint costs on the following percentage basis.

1. Development Account: Four percent (4%)

2. Production Revenue Account: Ten percent (10%)

(b) Application of Overhead. Except as provided in subparagraph (c) below, Development Account overhead shall be charged on all Direct Costs which are included as allowable charges in the Development Account and Production Revenue Account overhead shall be charged on all Direct Costs which are included as allowable charges in the Production Revenue Account.

(c) Overhead shall not be charged on the value of:

1. Legal expenses (Section 111(f));

2. Ad Valorem Taxes on personal property or mining rights rendered for NPSL Property;

(3) Outside Substances charged to the NPSL (Section 111(s));

(4) Credits for material charged under Section 111(c) that are salvaged, returned, or used for the benefit of non-NPSL Operations.

113. Unallowable Costs.

The following costs shall not be charged as direct or joint costs to NPSL Operations:

(a) Bonus payments to the State and lease rentals for the first four years of the lease;

(b) Interest (except as permitted under Section 111(g) and 120;

(c) Depreciation, depletion, amortization or any other charge for investment recovery, except as explicitly provided by the Allowance For Investment Recovery calculated according to Section 120, for material charged to a NPSL account under Section 111(c);

(d) Research and development costs except that this type of cost shall not be construed to cover the resoluion of specific technical problems confronting NPSL Operations, specific engineering design problems related to equipment or facilities required for NPSL Operations, or services required to comply with any federal or state, laws, rules or regulations;

(e) The following legal expenses:

(1) The costs of litigation against the State;

(2) Fines or penalties levied by any governmental agency except when the actions subject to fine or penalty are performed at the order or direction of applicable law, rule or regulation or by order of the Executive Officer.

(3) Settlement of claims or other litigation resulting from violation of regulatory requirements or gross negligence or willful misconduct; and

(4) The costs of the Lessee's legal staff or expense of outside attorneys except as allowed according to Section 111(f) or when approved by Executive Officer.

(f) The Lessee's own cost of administering employee benefit plans;

(g) The cost of acquiring or constructing Shore Base Facilities and real property improvements supporting NPSL Operations that are chargeable as Costs under Section 111(g).

114. Allocation of Joint Costs and Credits.

(a) Joint Costs shall be grouped in Costs Pools for allocation to NPSL and non-NPSL Operations in reasonable proportion to the beneficial or causal relationships which exist between a specific Cost Pool and the operations. That portion of a joint Cost Pool that may be allocated to NPSL Operations is called an allocable Joint Cost.

(b) The following allocation principles apply in allocating Joint Costs:

(1) G & G. G & G except as conducted solely for the benefit of the NPSL, shall be allocated on a line mile per tract basis.

(2) Compensated personal absence, payroll taxes and personal expenses. These items shall be allocated on the same basis as wages and salaries.

(3) Transportation Costs. Transportation Costs for employees that are not charged direct shall be allocated on the same basis as their salaries and wages.

(c) Joint Credits shall be allocated in the same manner as Joint Costs.

(d) When the NPSL is made a part of a unit, the allowed Costs shall be charged to the NPSL accounts on the basis specified in the unit operating agreement as approved by the Executive Officer. Revenues and other credits shall be made to the NPSL Accounts on the same basis as specified in the approved operating agreement. Joint Costs of an NPSL and a non-NPSL Tract that are adjacent to one another and are on the same structure shall be allocated on a basis approved by the Executive Officer.

115. Pricing of Material Purchases, Transfers, and Dispositions:

(a)(1) Purchased Material. Except as provided in paragraph (a)(2)(B)(i) of this section, Material purchased for use in NPSL Operations shall be charged to NPSL Operations at the price paid, after deduction of any discounts received. Should any purchased Material be defective or returned to a vendor for other reasons, the credit shall be made to NPSL Operations when received by the Lessee in accordance with Section 111(c)(3).

(2) Material transferred within the NPSL Operations or furnished from Lessee's warehouse or other properties.

(A) Material required for NPSL Operation shall be purchased for direct charge whenever practical; however, if the NPSL Operation is in a location where Material needed for operations may be not be generally available, the most practical location for obtaining such Material may be from other points in the Continental United States where Material is readily available and the Lessee has necessary facilities and personnel to forward Materials to the NPSL Operations. Therefore, under circumstances where it is economically beneficial to the NPSL for Lessee to furnish Materials from Lessee's warehouse or other properties located at other points in the Continental United States, such Material movements are subject to the conditions in subparagraphs (i) and (ii) below, except that the pricing and transportation origination point of such Material shall be provided under this Section 115 FOB a reputable supply store or Railway Receiving Point nearest such Lessee storehouse from which the Material is furnished.

(i) New Material (Condition "A").

(a) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price FOB Railway

Receiving Point or recognized barge terminal nearest the NPSL Property where such Material is normally available effective at date of transfer.

(b) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the NPSL Proeprty where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (a) of this Paragraph 2B of this Section 115.

(c) Other Material shall be priced at the Current replacement cost of the same kind of Material, effective at date of movement and FOB the supply store or Railway Receiving Point nearest the NPSL Property where Material of the same kind is normally available.

(ii) Used Material (Condition "B" and "C")

(a) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new Material.

(b) Material which is not suitable for its original function until after reconditioning shall be transferred under one of the two methods defined below:

(1) Classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the transferor.

(2) Classified as Condition "C" and priced at fifty percent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the transferee, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(c) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

(d) Material involving erection Costs shall be charged at applicable percentage of the current knocked-down price of new Material.

(3) Transferred and disposed material which cannot be priced according to Section 115(a)(2) shall be disposed of by offer for division in kind or sale to outsiders.

(e) Pricing conditions.

(1) Loading and unloading Costs shall be charged at a rate of twenty-five cents ($.25) per hundred weight, or such other rate as may be set by the Executive Officer, on all tubular goods movements, in lieu of loading/unloading Costs sustained, when the actual hauling Costs of such tubular goods is equalized under provisions of Section 111(2).

(2) Material involving erection Costs shall be charged at the applicable percentage of the current knocked-down price of new material.

(b) Pricing conditions.

(c) When Material subject to subparagraphs (a)(2)(B)(ii) of this section is

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transferred, the cost of reconditioning shall be borne by the receiving property.

(d) Transshipment Costs. Costs for labor, payroll burden and employee benefits, material, supplies, transportation and other related costs, incurred by the Lessee in connection with the accumulation, packing, crating and preparing Material and equipment for transshipment to the NPSL Property shall be a Direct Charge to the NPSL Operations.

120. Calculation of Interest on Development Account Balance.

(a) The Allowance for Investment Recovery shall be calculated monthly for any month in which the absolute balance in the development account is a debit balance after considering all Credits since that balance represents the unrecovered investment at the end of that month.

(b) The amount of interest to be applied shall be calculated monthly at one-twelfth of the weighted average annual prime rate interest in effect for the month for Bank of America, San Francisco; Security Pacific Bank, Los Angeles; and the First Interstate Bank, Los Angeles or their successors.

(c) The base for applying the interest rate is the amount equal to one-half of the !absolute valuel of the sum of the account beginning month's balance and the preliminary ending account bal ‌nce (before adding interest) for the month.

(d) The interest rate calculated in subparagraph (b) above is to be applied to the average account balance determined in subparagraph (c) above to determine the dollar amount to be debited to the development account as the monthly Allowance for Investment Recovery.

(e) The amount of interest determined in subparagraph (d) above is debited to the development account as a Direct Cost for the month.

121. Determination of the Net Profit Share Base.

a. During each month of the lease term:

(1) The development account shall be debited with allowable direct costs, overhead and Allowance for Investment Recovery, according to the valuation specified in subparagraph 2 below, Sections ______,______,______,______and credited with allowable Credits.

(2) The debit or credit balance of the production revenue account shall be determined by considering differences between the allowable direct costs, and overhead and credited with an amount reflecting the production revenues for the month, calculated in accordance with the value basis as follows: The value basis for determining the actual value of all hydrocarbon Production and for purposes of computing net profits in accordance with the bidding system shall be the current market price as determined by the State and shall include any premium or bonus paid for the hydrocarbon shipments. For oil shipments, the current market price never shall be less than the highest price in the nearest field at which oil of like gravity and quality is being sold in substantial quantities. For non-oil shipments, which consist of dry gas, natural gasoline, and other products extracted and saved from the gas produced from the NPSL Tract, the current market price never shall be less than the higher of the highest price in the nearest field at which non-oil production of like quality is being sold in substantial quantities or the net proceeds or exchange

value derived by the Lessee from the non-oil production removed or sold from the NPSL Tract. If the State elects to take in kind part or all of the share or shares of oil or non-oil production which the State is authorized to take in kind, the value of the hydrocarbons delivered to the State in lieu of money net profits shall be included as a credit to the NPSL development account and shall be deducted from the State's share of the net profits due for the period when such hydrocarbons were taken in kind or produced. The value of such hydrocarbons shall be determined by the State and shall be the same as that of other like hydrocarbons produced during the same month. If the account balance is a debit balance, that balance is carried forward as the beginning balance of the production revenue account for the succeeding month. If the account balance is a credit balance the credit amount shall be cleared to the development account by debiting the production revenue account and crediting the development account.

(3) If as a result of the accounting transactions described in this Section 121 there is a debit balance in the development

account this debit balance is the preliminary ending balance for the calculation of interest for the Allowance For Investment Recovery.

(4) If, as a result of the accounting transactions described in this Section 121 there is a credit balance in the development account, after the calculation of interest for the Allowance for Investment Recovery on any remaining debit balance, this credit balance is the Net Profits Share Base for the month.

122. Calculation of the State's Net Profit Share Payment and Lessee's net profit share.

(a) The State's Net Profit Share Payment due shall be calculated by multiplying the Net Profit Share base calculated in accordance with Section 121 by the Net Profit Share Rate.

(b) The Lessee's net profit share shall be calculated by subtracting the net profit share payment due the State from the net profit share base.

(c) At the end of each month during the period for which a Profit Share Base is calculated, the following transactions shall be made in the NPSL accounts.

(1) Debit the development account by the

Profit Share Base for the month.

(2) Credit the net profit share payment account by the Net Profit Share Base for the month.

(3) Debit the net profit share payments account by the net profit share payment to the State.

(4) Debit the Lessee's net profit share payment account by the Lessee's net profit share for the month.

(5) The net profit share payment due the State shall be paid to the State in accordance with the provisions of Section 131.

130. Maintenance of Records

(a) The Lessee shall establish and maintain such records as are necessary to determine for each NPSL:

(1) The volume and disposition of all oil and gas production saved, removed or sold for each month;

(2) The value of all oil and gas production saved, removed or sold for each month;

(3) The amount and description of costs and credits to the NPSL development account;

(4) The amount and description of all costs of acquisition, construction, and operation of

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equipment and facilities furnished by the Lessee and charged to the NPSL development account under Section 111(g). Such records shall include worksheets or other documents that indicate the method used to calculate the amount of each charge made under Section 111(g);

(5) The cumulative balance of Costs and Credits to the NPSL development account; and

(6) The inventory of material.

(b) The ledger cards showing the charges and credits to the NPSL development account shall be maintained until twenty-four months after the cessation of NPSL Operations by the Lessee. All other documents, journals and records shall be maintained for twenty-four months from the due date or date of mailing of the statement of account on an NPSL, whichever comes later, except that nothing in these procedures shall limit the time for investigation or the need to produce records when prima facie evidence of fraud or willful misconduct is obtained with respect to the State's interest in the NPSL Tract.

131. Reporting and Payment Requirements

(a) Each Lessee subject to this part shall file an annual report during the period from issuance of the NPSL until the first month in which production revenues are credited to the NPSL accounts. Such report shall list the cost incurred, including allowances applied, credits received, and the balances of the NPSL accounts. Not later than 30 days after the end of the first month in which production revenues are credited to the NPSL accounts, a final report relating to the period shall be filed.

(b) Beginning with the first month in which production revenues are credited to the production revenue account, the Lessee shall file a report for each NPSL not later than 30 days following the end of each month, containing the following information for the month for which the report is filed:

(1) The volume and disposition of all oil and gas production saved, removed or sold;

(2) The Production Revenue;

(3) The amount and description of all Costs and credits to the NPSL accounts;

(4) The balances of the NPSL development account and the production revenue account; and

(5) The net profit share base and Net Profit Share Payment due the State and the monthly profit share of the Lessee.

(c) The Lessee shall submit, together with the report required by paragraph (b) of this section, any net profit share payment due the State for the period covered by the report.

(d) The Lessee shall file a report not later than 90 days after each inventory is taken, reporting the controllable material on hand, acquired, transferred or used.

(e) The Lessee shall file a final report, not later than 30 days following the cessation of Production, together with the appropriate Net Profit Share Payment, indicating the remaining balance and Costs and Credits to the NPSL accounts for the period.

(f) Reports required by this Section shall be filed with the Executive Officer either separately or as part of the reports that are currently filed.

(g) Interest shall be calculated at the respective rates established under Section 120(b) in effect for the period or periods over which the Net Profit Share Payment is owed, compounded monthly, on the amount of a Net Profit Share payment, from the due date 30 days following the end of each month for which the payment was due of a Net Proft Share Payment until such payment is received by the State.

132. Inventories

(a) The Lessee is responsible for NPSL Material and shall make proper and timely Cost and Credit notations for all Material movements affecting NPSL Property. The Lessee shall provide only such Material as may be required for immediate use or is consistent with practical, efficient, and economical operations. The accumulation of surplus stocks shall be avoided by proper material control, inventory and purchasing. The Lessee shall make timely disposition of idle and surplus Material through sale.

(b) At reasonable intervals consistent with accepted industry practice on the west coast, inventories of Controllable Material shall be taken by the Lessee. Written notice of intention to take inventory shall be given by the Lessee at least 30 days before any inventory is to be taken so that the Executive Officer may be represented at the taking of inventory. Failure of the Executive Officer to

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be represented at an inventory shall bind the Executive Officer to accept the inventory taken by the Lessee, except in the case of wilfull misrepresentation or fraud.

(c) Inventory shall be valued with any generally accepted accounting method used by the Lessee to value the same Material for financial or income tax reporting purposes, provided that the method is consistently applied throughout the life of the Material.

(d) Reconciliation shall be made of a physical inventory with the NPSL development account by the Lessee, and a list of overages and shortages shall be available to the Executive Officer for audit as provided in Section 133. Inventory adjustments of Controllable Material shall be made by the Lessee to the Development Account for overages and shortages but Lessee shall be held accountable only for shortages due to lack of reasonable diligence. Controllable Material removed from physical inventory that has not been credited to NPSL Operations under Section 115(a)(2) shall be credit to NPSL Operations at its original value, except that when the cost of the material originally qualified for an Allowance for Investment Recovery in Section 120, the Credit shall be calculated pursuant to Section 121(a)(3).

133. Audits

(a) The accounts of an NPSL Lessee or of a contractor of the Lessee which are related to NPSL Operations shall be subject to audit by the State or its appointed agent. Where possible, the auditor for the State shall coordinate audit efforts with other nonoperators, if any. The State shall have the right to initiate an audit any time wihtin twenty-four months of the due date of the monthly statement that is to be audited or the date that the statement was mailed, whichever is later, provided, however, that audits may not be conducted any more frequently than once every year except upon a showing of fraud or willfull misrepresentation.

(b)(i) When nonoperators of an NPSL call an audit in accordance with the terms of their operating agreement, the Executive Officer shall be notified of the audit call in the same manner as the operator is notified. The State may elect to send an auditor with the audit team specified by the nonoperators in lieu of calling for a separate audit by the State.

(2) If the State determines to call for an audit, the State shall notify the Lessee of its audit call and set a time and place for the audit. Such a notice shall be sent at least thirty days before the suggested time for the audit to allow the nonoperators to join in the State's audit in lieu of calling for their own audit. The place for the audit will normally be the place where the Lessee maintains its records pertaining to the NPSL lease. The Lessee shall send copies of the notice to the nonoperators on the lease. The Lessee shall use reasonable effort to notify all operators, but failure to include one or more nonoperators in the notification shall not void the notice.

(3) When the State calls for an audit, the State may suggest the date and time when the audit may commence. The estimated duration of the audit may be mentioned to the Lessee as well as to the other nonoperators who may elect to

supply an auditor for their own audit purposes. The Lessee's office where the audit will be held may be named or, if not known, inquired about. If a visit to a field plant or field office is contemplated by the State auditor, such a field trip may be mentioned. If the State expresses a desire to review a period on which the twenty-four month time limitation has expired, it is the Lessee's perrogative to allow the review or to request that the State adhere to the time limitation specified in these regulations.

(c)(i) Exceptions to the acounting by the Lessee, whether in favor of the State or the Lessee, shall be noted in a report to the Lessee. The Lessee shall have 60 days from the mailing of a notice of exceptions to agree to the adjustments proposed by the State auditor or to object to the proposed adjustments. If the Lessee accepts the proposed adjustments, the adjustment shall be booked in the month in which the Lessee agrees to the adjustment, except where such adjustment would have resulted in a change in any Net Profit Share Payment due the State. In such a case, there shall be a redetermination of the NPSL accounts pursuant to Section 134.

(2) If the Lessee disagrees with the adjustment, the Lessee shall have the right to appeal the adjustment to the Executive Officer.

(d) Upon receipt of an agreement by the State auditor that there are no required audit adjustments, upon final determination with respect to any audit adjustment proposed by the State auditor, or upon the lapse of twenty-four months from the due date or date of mailing of the statement of account on an NPSL lease, whichever comes later, the books shall be closed for audit adjustment purposes, except upon a showing of fraud or willful misrepresentation.

(e) Records required to be kept under Section 130(a) shall be made available for inspection by any authorized agent of the State at any time during normal business hours upon the request of the Executvie Officer or other authorized official.

134. Redetermination and Judicial Review

(a) If, as a result of an inspection of records or an audit under Section 133, the Executive Officer determines that there is an error in the NPSL Accounts or an error in calculating the Net Profit Share Payment, whether in favor of the state or the Lessee, the Executive Officer shall redetermine the Net Profit Share Base and recalculate the Net Profit Share Payment due the State and notify the Lessee of the recalculation.

(b) The Lessee shall pay any additional amount of Net Profit Share Payment owed plus interest, compounded monthly, from the date that the payment was due until the date it is actually paid. Interest shall be calculated at the rate established under Section 120(b) in effect for the period or periods over which the payment is owed.

(c) If the recalculated Net Profit Share Payment is less than the amount paid the State, the Lessee shall apply such overpayment to the Net Profit Share Payment, plus interest as calculated in the same manner as provided in subparagraph (b) above not to exceed the amount(s) due and payable under item (b) above.

(d) Within 30 days after receiving notice of the recalculation as provided in paragraph (a) of this Section, the Lessee may seek appropriate judicial review of the decision of the Executive Officer.