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STATE OF ALASKA  
APPELLATE COURTS

**In the Supreme Court of the State of Alaska**

2011 SEP 14 AM 10:41

STATE OF ALASKA, DEPARTMENT OF )  
NATURAL RESOURCES, )

CLERK, APPELLATE COURTS

Petitioner, )

BY: \_\_\_\_\_  
DEPUTY CLERK

vs. )

**Supreme Court Case No. S-13730**

Trial Court Case No. 3AN-06-13751

(Consolidated Appeals)

EXXON MOBIL CORPORATION, )  
OPERATOR OF THE POINT THOMSON )  
UNIT; BP EXPLORATION (ALASKA) )  
INC.; CHEVRON U.S.A. INC.; )  
CONOCOPHILLIPS ALASKA, INC., )

Case No. 3AN-06-13760 CI

Case No. 3AN-06-13773 CI

Case No. 3AN-06-13799 CI

Case No. 3AN-07-04634 CI

Case No. 3AN-07-04620 CI

Case No. 3AN-07-04621 CI

Respondents. )

PETITION FOR REVIEW FROM THE SUPERIOR COURT  
THIRD JUDICIAL DISTRICT  
HONORABLE SHARON GLEASON, SUPERIOR COURT JUDGE

**RESPONDENTS' EXCERPT OF RECORD  
VOLUME 1 OF 1**

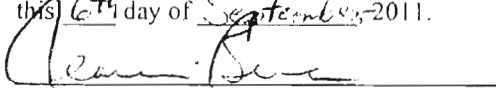
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Filed in the Supreme Court of the State of Alaska  
this 6<sup>th</sup> day of September, 2011.

  
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# STATE OF ALASKA

## DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

P.O. BOX 107034  
ANCHORAGE, ALASKA 99510-7034  
PHONE: (907) 762-2553

(907)762-2547

December 22, 1994


G. T. Theriot, Manager  
Alaska Interest Production Department  
Exxon Company, U.S.A.  
P. O. Box 2180  
Houston, TX 77252-2180

Via Fax (713-656-7100) and Mail

Dear Tom:

As we discussed this morning, this is to acknowledge our agreement to extend the Eleventh Plan of Development for the Pt. Thomson Unit (PTU) until April 30, 1995. The decision to extend is intended to provide an opportunity for both of us to review the discussions and the documents exchanged to date regarding our respective views on contraction of the unit area and on diligent further exploration and development of the PTU acreage.

Sincerely,

  
James E. Eason  
Director

cc: Patrick Coughlin - ADOL

PTU.11thPOD.Extension.txt

PTUE01\_001051

PTU Rec\_011700

Exc. 000830

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 762-2549

April 20, 1995

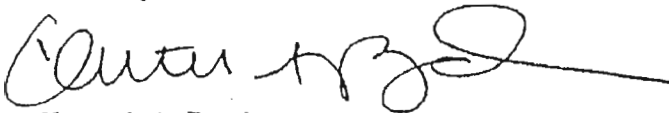
G. T. Theriot, Manager  
Alaska Interest Production Department  
Exxon Company, U.S.A.  
P. O. Box 2180  
Houston, Texas 77252-2180

Dear Tom:

As we discussed, this is to acknowledge our agreement to extend the Eleventh Plan of Development for the Pt. Thomson Unit (PTU) until July 15, 1995.

I hope this extension will provide an opportunity for both parties to review the issues regarding our respective views on contraction of the unit area and on further diligent exploration and development of the PTU acreage.

Sincerely,



Kenneth A. Boyd  
Acting Director

cc: John Shively, Commissioner  
Patrick Coughlin, Assistant Attorney General  
Mike Kotowski, Units Manager

042195ii.kb

PTUE01\_001050

PTU Rec\_011699

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Exc. 000831

Mike  
File

**EXXON** COMPANY, U.S.A.  
POST OFFICE BOX 2180 • HOUSTON, TEXAS 77252-2180

PRODUCTION DEPARTMENT  
ALASKA INTEREST  
D. B. STORY  
EXPLOITATION MANAGER

RECEIVED  
JUL 19 1995

July 11, 1995

DIVISION OF OIL & GAS

Ken Boyd  
State of Alaska  
Department of Natural Resources  
Division of Oil & Gas  
P. O. Box 107034  
Anchorage, Alaska 99503-5948

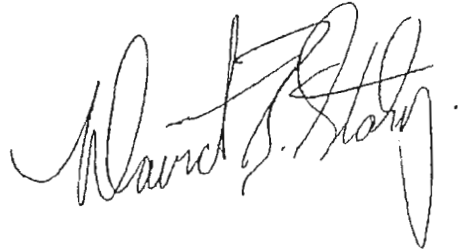
Ken,

I had the opportunity to talk to Tom Theriot after our phone conversation of July 6, 1995. Tom supports the idea of meeting with John Shively during the month of August to discuss and lay out a plan or process by which we can address the issues related to Point Thomson. We continue to believe that a mutually satisfactory resolution can be achieved given opportunity to have constructive dialogue over the next few months.

Obviously our immediate concern is to secure a further extension to the 11th POD. Your suggestion of September 1 is acceptable to us, although I continue to have reservations that this provides adequate time for us to discuss options.

As I've mentioned, we continue to progress the completion of the Reservoir Characterization Study as laid out in the 12th POD submittal and look forward to sharing that work with you later this year.

We look forward to meeting with you and Commissioner Shively in the near future. If I can be of any assistance, please call.



DBS:rij

A DIVISION OF EXXON CORPORATION

PTUE01\_001045

PTU Rec\_011694

Exc. 000832

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 762-2549

July 14, 1995

G. T. Theriot, Manager  
Alaska Interest Production Department  
Exxon Company, U.S.A.  
P. O. Box 2180  
Houston, Texas 77252-2180

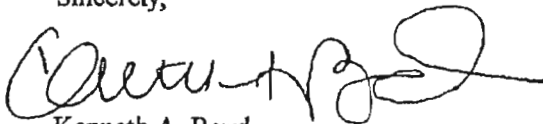
*via facsimile 713-656-9430 and U.S. Mail*

Dear Tom:

As I discussed with Dave Story, this is to acknowledge our agreement to extend the Eleventh Plan of Development for the Pt. Thomson Unit (PTU) until September 1, 1995.

I hope this extension will provide an opportunity for you, Commissioner Shively and appropriate staff to review the issues regarding our respective views on contraction of the unit area and on further diligent exploration and development of the PTU acreage.

Sincerely,



Kenneth A. Boyd  
Director

cc: John Shively, Commissioner  
Patrick Coughlin, Assistant Attorney General  
Mike Kotowski, Units Manager

042195n.kb

PTUE01\_001046

PTU Rec\_011695

Exc. 000833



# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 762-2549

August 31, 1995

G.T. Theriot  
Alaska Interest Manager  
Exxon Company, U.S.A.  
P.O. Box 2180  
Houston, Texas 77252-2180

Subject: Point Thomson Unit  
Eleventh Plan of Development and Operations

Dear Tom:

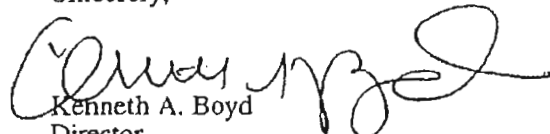
The Eleventh Plan of Development (POD) for the Pt. Thomson Unit is extended until February 1, 1996.

The Twelfth Plan of Development will be resubmitted on or before November 1, 1995. Prior to resubmitting the Twelfth POD staff from Exxon and this division will meet to assess progress on the Eleventh POD and to consider additions to the Twelfth and subsequent Plans. I expect this meeting can take place in late September.

An agenda for this meeting is being developed and will be sent as soon as possible. One item that will be on the agenda is an idea that you and Commissioner Shively have discussed--how to develop farm-in opportunities for companies that may be interested in the Pt. Thomson area.

Please call if you have any questions.

Sincerely,

  
Kenneth A. Boyd  
Director

cc: Commissioner Shively

PT11PODext

PTUE01\_001044

PTU Rec\_011693

Exc. 000834

MICKE - full

**EXXON** COMPANY, U.S.A.  
POST OFFICE BOX 2180 • HOUSTON, TEXAS 77252-2180

PRODUCTION DEPARTMENT  
ALASKA INTEREST  
D B STORY  
EXPLORATION MANAGER

September 26, 1995

RECEIVED

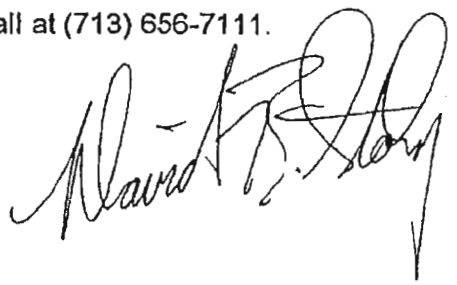
Ken Boyd      OCT 05 1995  
State of Alaska  
Department of Natural Resources *DAC*  
Division of Oil & Gas  
P. O. Box 107034  
Anchorage, Alaska 99503-5948

Ken,

I have reserved a large conference room on the fourth floor of the Calais II building, 3301 C Street, for Wednesday, October 4, 1995, from 1:00 to 5:00 p.m. We have sent out an open invitation for any of the PTU WIO's to attend this meeting.

As we discussed, we will prepare a brief summary of initiatives completed under the 11th POD and then spend the majority of the time discussing the filing of the revised 12th POD and future plans.

If you have any questions, please give me a call at (713) 656-7111.



DBS:rij

PTUE01\_001043

A DIVISION OF EXXON CORPORATION

PTU Rec\_011692

Exc. 000835

TONY KNOWLES, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

3601 "C" STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 269-8800

April 17, 1998

Exxon Company, U.S.A.  
L. R. Howard, Manager  
Production Department, Alaska Interest  
P.O. Box 2180  
Houston, TX 77252-2180

RE: Point Thomson Unit  
Interim Plan of Development

Dear Mr. Howard:

The Interim Plan of Development, approved December 24, 1997, contained a number of milestones to establish an acceptable 15<sup>th</sup> Plan of Development for the Point Thomson Unit (PTU) by June 30, 1998. Exxon Company, U.S.A. (Exxon) and the other working interest owners have met several of the requirements itemized in the Interim POD. Exxon submitted current Exhibits A and B to the Unit Agreement on January 27, 1998. On March 30, 1998, Exxon submitted a list of the studies done to date with a synopsis of each one and a list of agreements between the PTU owners with an explanation of each one. On April 2, 1998, Exxon provided a briefing on the results of the full field modeling and Parson's Study. Exxon also coordinated with Arco Alaska Inc. (ARCO) to arrange a presentation of the 3D seismic data collected by ARCO under a farmout agreement with Exxon. Arco presented the information to division staff on April 7, 1998. The division also received a briefing by BP Exploration (Alaska) Inc. and Chevron U.S.A. (BP/Chevron) on April 7, 1998, pertaining to their work on various Brookian prospects.

We identified discrepancies between the Exhibit A and our records in a letter addressed to Mr. Steingreaber dated February 10, 1998. The list of studies is consistent with the documentation on file with the division. The list of agreements between the PTU owners notes that it "is limited to those active agreements to which Exxon is either a party or, where Exxon is not a party, where the parties to such agreement have provided Exxon with information regarding the agreement and permission to include such agreement on this list." We are interested in summary information on all agreements between the parties concerning the PTU acreage. Please provide copies of any ballots, including those for soil boring studies, seismic programs, engineering studies, environmental studies, unit expansion, etc., which have been circulated among the working interest owners during the last two years, including a summary of the ballot results. Please also copy us on any future ballots. After reviewing the data presented from the Parson's study, we will want to meet again to discuss specific elements of the study.

PTU Rec\_011590

PTUE01\_000959

*"Develop, Conserve and Enhance Natural Resources for Present and Future Alaskans"*

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Exc. 000836

Exxon Company, U.S.A.  
Point Thomson Unit  
Interim Plan of Development  
April 17, 1998  
Page 2

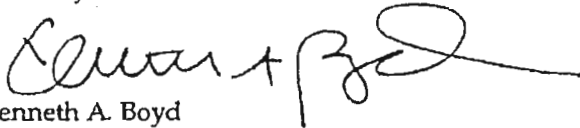
The information presented at the April 2 and 7, 1998, meetings was informative. Arco and BP/Chevron provided interpretations of the data acquired and discussed their plans for further exploration. DNR accepted individual company presentations this year because of this unit's unique history.

Exxon, as unit operator, is responsible for coordinating the exploration and development efforts in all reservoirs within the unit area into a comprehensive plan and presenting the information to DNR as a unit plan of development. The 15<sup>th</sup> POD must have specific work commitments for the ongoing exploration and delineation of Brookian and other targets within the unit. The work commitments could include new drilling as well as comprehensive data sharing agreements, farmout solicitations, alignment agreements and joint operating agreements. The 15<sup>th</sup> POD must include a description of the process and specific milestones that Exxon will meet to complete a final, integrated economic analysis of the development potential of all the known reservoirs within and near the PTU.

Under the approved Interim POD, Exxon must submit a draft of the 15<sup>th</sup> POD by May 15, 1998. We tentatively scheduled a conference call for the afternoon of May 21, 1998, to discuss DNR's comments on the proposed plan. Exxon must file the final 15<sup>th</sup> POD by June 8, 1998, so that DNR can issue a decision accepting or rejecting the proposed 15th plan before the interim plan expires on June 30, 1998.

Thank you for your assistance in coordinating the meetings held in the past week. We appreciate the time and effort required to bring all of the parties together. Movement toward an integrated unit plan of development is apparent and we look forward to working with you to achieve that goal.

Sincerely,



Kenneth A. Boyd  
Director

cc: BP Exploration (Alaska) Inc.  
Chevron U.S.A. Inc.  
Mobil Oil Corporation  
Oxy U.S.A. Inc.  
Phillips Petroleum Company  
Arco Alaska Inc.  
Nan Thompson, Dept. of Law

Meetings4.15.doc

PTUE01\_000960

PTU Rec\_011591

Exc. 000837

**EXXON** COMPANY, U.S.A.  
POST OFFICE BOX 2180 • HOUSTON, TEXAS 77252-2180

PRODUCTION DEPARTMENT  
ALASKA INTEREST

MARK W. ALBERS  
MANAGER

June 5, 1998

Draft Fifteenth Plan of Further  
Development and Operation  
Point Thomson Unit  
North Slope, Alaska

VIA FAX (907-562-3852) &  
AIRBORNE EXPRESS

Mr. Kenneth A. Boyd, Director  
Division of Oil and Gas  
Alaska Department of Natural Resources  
3601 "C" Street, Suite 1380  
Anchorage, Alaska 99503-5948

Dear Mr. Boyd:

Exxon, as Unit Operator and on behalf of the Working Interest Owners, hereby submits for your review a revised draft of our Fifteenth Plan of Further Development and Operation (15th POD) for the Point Thomson Unit.

As agreed, this revised draft is being forwarded to you in lieu of the final POD 15. It is our understanding that you and your staff will review this revised draft, and provide any additional feedback to us before expecting the final POD 15 to be forwarded to you.

Should you have any questions, please feel free to call me at 713-656-7000, or Mr. Raul Huerta at 713-656-7111.

Sincerely,



PTU Rec\_011853

MWA:bbt  
Enclosure

A DIVISION OF EXXON CORPORATION

PTUE01\_000922

RECEIVED  
JUN 8 1998  
DIV. OF OIL & GAS  
DIRECTOR'S OFFICE



Exc. 000838

**DRAFT**

**POINT THOMSON UNIT**

**Fifteenth Plan of Further  
Development and Operation  
and  
Update on the Fourteenth and Interim Plans  
of Further Development and Operation**

In accordance with all applicable regulations, attached below is the updated Fifteenth Plan of Further Development and Operation (POD) for the Point Thomson Unit (PTU) which is submitted by Exxon as Unit Operator and on behalf of the Working Interest Owners ("Owners").

**Overview**

During the term of the 14th and Interim PODs, the Owners continued their efforts to commercialize the PTU, with the focus on evaluating the potential of various Thomson Sand reservoir gas development scenarios. The Owners, through their technical efforts, improved their collective understanding of many of the complex technical challenges associated with developing a high pressure gas reservoir in a remote location. The drilling and completion technologies necessary to drill and produce expensive, high throw, large-bore wells at high production rates have been examined. Additionally, detailed geologic and reservoir simulation models have been completed to: (a) assist in the estimation of reserves and flowstreams for numerous development scenarios, and (b) prompt the orderly development of facility design concepts and cost estimates.

While the work accomplished pursuant to the 14th and Interim PODs has led to an increased understanding of the Thomson Sand reservoir by the Owners, hurdles to economic development remain; particularly, high well and facilities costs, lack of a gas market and transportation system, and the unique technical challenges associated with high pressure gas cycling. Consequently, development of the Thomson Sand gas is not economically justified at the present time. However, the Owners remain committed to finding ways to overcome the technical and commercial challenges associated with the resource in order to eventually commercialize all hydrocarbon accumulations in the PTU area.

Additionally, three of the PTU Owners (Exxon, BP and Phillips) have worked with the State of Alaska's North Slope Gas Commercialization Team which has recommended that changes be made to the State's tax and royalty structure to improve the economic feasibility of a North Slope gas project. This work culminated in the Governor's introduction of Stranded Gas legislation (HB 393) earlier this year. Several of the Owners testified at many legislative hearings, which culminated in the Legislature approving HB 393. Future fiscal legislation will continue to be monitored for applicability to PTU resource commercialization.

PTU Rec\_011854

PTUE01\_000923

Exc. 000839

**DRAFT**

Update on the Fourteenth and Interim Plans of Development

DNR Update

On April 2, 1998, the Owners presented a PTU progress update to the staff of the Alaska DNR. The update included a report on the Thomson reservoir full-field model, an overview on Drilling Technology, a PTU Facility Screening Study which included screening level cost estimates, the Thomson Oil Rim and pre-Mississippian/Basement, as well as the PTU Common Database and future PTU Work Plans.

Development Steering Committee (DSC) Formation

On June 11, 1997, the Owners approved the formation of the DSC. The DSC was charged with the coordination and development of a unit screening "tool kit" consisting of well design and cost estimates, facilities design and cost estimates, and selection and evaluation of development scenarios.

Fine Scale Geologic Model

A fine scale state-of-the-art 3D geologic model of the Thomson Sand encompassing approximately 330 square miles was constructed. Consensus trend maps, generated by the Unit's Geologic and Reservoir Modeling Committee (GRMC), were used to outline the distribution of facies and porosity within the model. This fine scale geologic model provides the foundation for the Thomson Sand reservoir simulation models and for the evaluation of development scenarios.

Reservoir Simulation

The reservoir simulation work was conducted by Exxon Production Research Company under the direction of the DSC. Initially, three reservoir simulation models were built to evaluate exploitation of the gas resource. The final results of this study were provided to the DSC participants on February 5, 1998. A fourth reservoir simulation model was built to evaluate possible oil rim depletion scenarios.

Well Design and Cost Estimates

Well design evaluation was conducted by Exxon Production Research Company under the direction of the DSC. Screening level well cost ranges were developed and reviewed by DSC participants in March 1998.

Facilities Design and Cost Estimates

Parsons Process Group Inc. was commissioned by the DSC to conduct a study to define "screening level" design and cost estimates for the facilities that would be required for various Thomson Sand development scenarios. The final results of this study were provided to the DSC participants on September 2, 1997.

Basement Studies

A pre-Mississippian/Basement interpretation was presented to the Unit Owners, and an overview has been presented to the staff of the Alaska DNR.

# DRAFT

## Thomson Oil Rim Studies

Geochemical analysis of the PTU-1 and C-1 cores was completed. These results have been presented to the Unit Owners, and an overview has been presented to the staff of the Alaska DNR. Further work may include an evaluation of the Mobil Staines River State #1 core, and if feasible, modeling of the producibility of the oil rim.

## Flaxman Fan Studies

A scoping study has been initiated to evaluate the Flaxman Sand (Brookian) accumulation. The Owners plan to refine this model with newly acquired 3D seismic data and the results will be incorporated into the overall Brookian studies.

## Farmout Initiative

The farmout agreements from Exxon, Mobil and Phillips required Arco to commence the acquisition of a western PTU 3D seismic survey, covering Unit Tracts 7, 8, 9, and 10, on or before March 31, 1997. According to Arco, Northern Geophysical commenced acquisition of the land portion of the required survey on or before March 30, and has now completed the acquisition of this data. The survey data has been processed and a copy of the land portion has been delivered to the Farmers. Arco conducted a proprietary presentation of the western PTU 3D seismic data with the staff of the Alaska DNR on April 7, 1998.

## Appraisal Activity

On March 13, 1997, BP and Chevron publicly announced that the Sourdough #3 Well had confirmed the prior oil discovery made by the Sourdough #2 Well. Both of the wells are located within the PTU. A proprietary review of Sourdough was conducted for the staff of the Alaska DNR by BP and Chevron on April 7, 1998. Further appraisal of the Brookian play, including a possible drillwell, is under consideration by BP and Chevron.

## Fifteenth Plan of Development (15th POD)

### Common Database Plans

During the term of the 15th POD, which the Owners request to extend from July 1, 1998 through September 30, 1999, the Owners intend, among other things, to finalize Agreements which will grant them access to well and seismic data which will create a common technical PTU database, and allow a mapping effort for all reservoirs within the PTU. Measurable progress has been made to date in this regard, and plans are in place to further this effort as indicated below:

- All major Owners in the PTU have signed a ballot agreeing to participate in a current geo-technical boring program proposed by BP (Ballot 98-1).
- The DSC will soon be considering an environmental studies ballot (Ballot 98-2) to assess potential impacts of future development plans in the PTU area.
- The DSC has agreed to conduct a pressure-volume-temperature (PVT) forum on or about June 11, 1998 to reach consensus on PVT analysis and characterization which will be shared among all the DSC members.

PTU Rec\_011856



# DRAFT

- The Owners will conduct a PTU well core party during mid to late July 1998 during which all cores will be analyzed to help with Brookian reservoir description and modeling. All Owners are securing necessary management approvals and are verifying the availability of all PTU well cores.
- The Owners met on May 26 and 27, 1998, and have scheduled two additional meetings to further discuss the common database and progress negotiations on the agreements to share this data. The Owners are targeting to have most agreements in place by September 1, 1998. The Owners meetings are tentatively scheduled for the week of June 22 in Houston, and during the week of July 27 in Alaska. The Owners will update the Alaska DNR on the status of the common database on or before September 30, 1998.

The draft Licensing Agreement for the northern PTU 3D surveys has been provided to all PTU Owners by BP and Chevron. The surveys are shown on the attached plat. With the acquisition of these surveys, as well as the reprocessed PTU 3D and the western PTU (Arco) 3D, geophysical and geologic mapping of the Brookian reservoirs will begin during the proposed term of the 15th POD. However, Owners' access to this data and total participation in all Brookian mapping efforts remain a challenge, due to varied ownership in the Brookian accumulations.

BP and Chevron have offered to include their Sourdough proprietary data into the common database discussed above, with adequate protection and value provided for the data. This will be discussed in more detail at the Owner meetings discussed above.

## Delineation Plans

POD 15 delineation activities will be primarily focused on acquiring 3D seismic data over the Brookian reservoirs as part of the development of the common technical database.

In the northern PTU/Flaxman area new 3D data has been acquired by BP and Chevron and is in the process of being evaluated for licensing by the Owners. The data that has been acquired is shown on the attached plat as 1997 OBC (Flaxman), 1998 West Island Corridor, and 1998 Flaxman Lagoon. This data, when processed, will be evaluated and integrated into the geologic model discussed above. BP intends to complete its 3D coverage along the northern and eastern portion of the PTU by year-end 1999 (conditions permitting). Owners have the option to acquire a license on this data and participate in Unit studies and mapping efforts for the Brookian reservoirs. Of course, one of the Owners' challenges is that Brookian accumulations are isolated and discrete and may not have similar ownership as that which exists within the Thomson reservoir. Each Owner will evaluate their particular need to acquire this data. The long-range plan is to merge all 3D data into one updated PTU 3D survey, as directed by the consortium of Owners.

In the western PTU area, Arco continues to evaluate its options pursuant to the recent trade agreements with Exxon, Mobil and Phillips.

PTU Rec\_011857

In the southern PTU area, BP and Chevron continue to study further Brookian development, including possible plans for a drillwell in 1999. As plans develop for any drillwell, the Alaska DNR will be kept advised. At this time, no PTU Owner (including Arco) has a firm commitment for a drillable well location to submit to the DNR.

## Development Planning Studies

### *Thomson Gas Reservoir*

The Owners plan to complete the remaining scoping activities associated with Phase II of the Thomson reservoir study. The Unit "tool kit" developed during the 14th and Interim PODs will be used to refine gas cycling and blowdown development scenarios evaluated during Phase I of the study. Phase II of the Thomson Reservoir study includes optimization and high grading of locations and a reduction in the number of drill sites, varying the location and number of producers and injectors, high grading gas offtake rate vs. facility costs and cost reduction. A PTU forum on PVT properties will be held on or about June 11, 1998, and will be based on a foundation of expanded PVT data sharing among the Owners. In addition, laboratory capillary pressure measurements are planned for additional facies representation. Depending upon the results of this effort, the Owners will undertake any additional work necessary to refine the current screening level design and cost estimates to match the upgraded scenarios. Once this effort is completed, Phase III operations, if warranted, will be progressed and could include conceptual engineering and appraisal delineation planning.

### *Thomson Oil Reservoir*

The Owners will perform additional geochemical analysis on core data from the Mobil Staines River State #1 well. Planned analysis of simulation results may result in additional investigation of oil rim depletion scenarios. A review of the oil rim study results will be held with the DNR by September 30, 1998, as requested.

### *Brookian Accumulations*

The Unit Owners will work together to build or update geophysical, geological, and reservoir models within the PTU area. Exxon as Unit Operator will coordinate the building or updating of as many specific Brookian development models as needed, after the common technical database is established. Consensus hydrocarbon flowrates and cost estimates will be developed to evaluate stand-alone Brookian developments and possible Brookian/Thomson co-developments. Assuming that the planned 3D activities occur as scheduled, the Brookian development models could be completed as soon as the 4th Quarter of 1999.

In addition, BP and Chevron have recently conducted a geotechnical program (soil borings) to help surface facilities and pipeline planning in the PTU area. The major Owners in the PTU have all signed ballots agreeing to share this data and pay their share of the costs for this work. BP and Chevron are also considering various engineering and environmental studies as well. The DSC will soon be considering an environmental studies ballot (Ballot 98-2) to assess potential impacts of future development plans in the PTU area.

**DRAFT**

*Integrated Development Model*

After the Owners create the common technical database, develop a unit Brookian model(s), and scoping cost estimates, a generic integrated development model will be built to test development sensitivities for the Thomson and Brookian Sands. The development model can then be used to evaluate synergies and allow Unit Owners to share conclusions and enhance the understanding of development possibilities within the Unit. As noted above, completion of an integrated development model is targeted by year-end 1999.

Summary

In summary, the Owners' major emphasis for PTU development during the term of the 15th POD will be to: (a) create a common shared technical database for the PTU area, and (b) complete an evaluation of the common database in accordance with the attached PTU schedule/timeline, in an effort to look for synergies between potential oil and gas developments in the PTU area.

The Owners recognize that challenges remain in creating the shared technical database, but are committed to exploring all avenues for making this a reality. We expect to have most of the common database in place by September 1, 1998. The Owners further recognize that this shared database for the PTU area will allow all Owners to participate in the building/updating of geophysical, geological, reservoir and facility models for all reservoirs within the PTU area. A unified effort by the Owners in this regard should result in a common understanding of conclusions by year-end 1999.

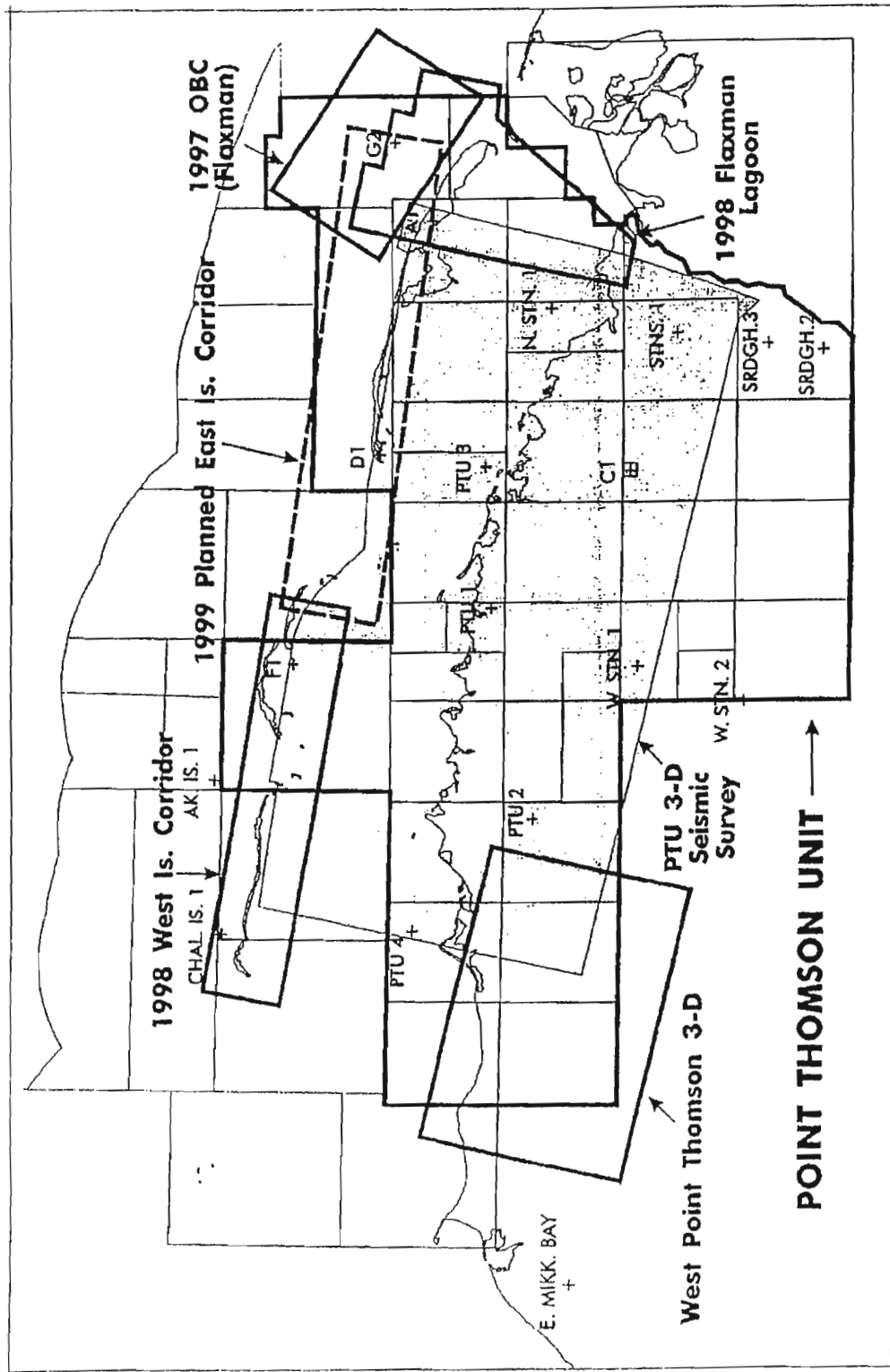
The Owners request that the term for the 15th POD run from July 1, 1998 to September 30, 1999 to allow them sufficient time to complete the unit activities as discussed above, and to allow for incorporation of planned late summer 1998 and winter 98-99 seismic data into the evaluation process.

PTU Rec\_011859

**DRAFT**

Point Thomson Unit/Plan of Development 15

# PTU 3D SEISMIC ACQUISITION PROGRAM



PTU Rec\_011860

PTUWJDS  
10/01-DJO/HET

PTUE01\_000929

# DRAFT

## EXHIBIT 1 - POINT THOMSON DEVELOPMENT WORK SCHEDULE

ACTIVITIES	1Q98	2Q98	3Q98	4Q98	1Q99	2Q99	3Q99	4Q99	1Q00	2Q00	3Q00	4Q00
<b>DEVELOPMENT PLANNING</b>												
1. PTU Other Resource Evaluation Oil Rim Geochemistry/Simulation, Flaxman Scoping Model and Basement Studies												
2. PTU Gas Resource Evaluation Scenario Upgrades (FFM), Evaluation and Economics Update, Cost Reduction (Phase II)												
3. Common Database Upgrades/Data Sharing Agreements												
4. PTU Brookian Oil Evaluation Data Trades, Seismic Process/ Interpret., Geol. Interpret. and Modeling, Simulation, Devel. Scoping Integrated Development Model												
6. Conceptual Engineering/Appraisal Planning (Phase III), if Warranted												
<b>ACTIVITIES</b>												
<b>POD SCHEDULE</b>												
1. Interim POD												
2. POD 15 (Proposed)												
3. POD 16												

● Alaska DNR Reviews

PTU Rec\_011861

File: G:\A\O\PTU\POD15\DSS Schedule2.DOC

PTUE01\_000930

06/05/98

TONY KNOWLES, GOVERNOR

**DEPARTMENT OF NATURAL RESOURCES**

*DIVISION OF OIL AND GAS*

3601 "C" STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 269-8800

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Fax (713) 656-1512

June 30, 1998

Exxon Company, U.S.A.  
Mark W. Albers, Manager Alaska Interests  
P.O. Box 2180  
Houston, TX 77252-2180

RE: Point Thomson Unit  
15th Plan of Development

Dear Mr. Albers:

Exxon Company, U.S.A. (Exxon) as unit operator originally submitted a 15<sup>th</sup> Plan of Development for the Point Thomson Unit (PTU) on October 1, 1997. By letter dated October 8, 1997, the Department of Natural Resources, Division of Oil and Gas (DO&G) notified Exxon that the plan was incomplete. DO&G recognized that the working interest owners had not shared the results of their respective exploratory efforts, and Exxon could not, therefore, write an integrated development plan. On December 24, 1997, DO&G approved an Interim Plan of Development (Interim POD) for the Point Thomson Unit. The Interim POD included the following requirements:

- 1) Exxon will submit current Exhibits A and B to the Unit Agreement by January 31, 1998.
- 2) By March 31, 1998, Exxon will:
  - (a) submit a list of the studies done to date with a synopsis of each one;
  - (b) submit a list of all agreements between the Point Thomson Unit owners with an explanation of each one; and
  - (c) provide a briefing on the results of the full field modeling and Parson's Study.
- 3) Exxon will also coordinate with ARCO to arrange a presentation of the 3D seismic data collected by ARCO under a farmout agreement with

PTUE01\_000899

*"Develop, Conserve and Enhance Natural Resources for Present and Future Alaskans"*

PTU Rec\_011829

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Exc. 000847

Exxon Company, U.S. A.  
Point Thomson Unit  
15th Plan of Development  
June 30, 1998  
Page 2

- Exxon by March 31, 1998, or analyze and present the information themselves if ARCO does not.
- 4) The division also requested a briefing by BP and Chevron during the first quarter of 1998, on the Plan of Exploration for the Sourdough prospect.
  - 5) Exxon will submit a preliminary draft of its 15th plan of development for DNR review and comment at the April meeting, and submit a draft POD by May 15, 1998.
  - 6) Exxon will file a 15th Plan of Development by June 8, 1998.

During the six-month term of the Interim POD Exxon committed to submit the data listed above and coordinate with the other working interest owners to develop a plan to delineate all of the reservoirs in the Point Thomson Unit. Exxon had until June 30, 1998, to develop and submit a complete 15th Plan of Development (15<sup>th</sup> POD) to DO&G. Exxon as unit operator fulfilled all of the requirements itemized above with the exception of number 2) (c). Exxon did not schedule a briefing on the Parson's Study during the period of the Interim POD, however by mutual consent we intend to have the briefing some time this year.

On May 14, 1998, Exxon submitted a draft of the 15<sup>th</sup> POD. DO&G staff commented on the draft plan during a teleconference call held Thursday May 21, 1998. Exxon submitted a revised draft 15<sup>th</sup> POD on June 5, 1998. DO&G suggested changes to the revised draft by fax on June 9, 1998. On June 16, 1998, Exxon incorporated the requested changes and faxed another revised draft to DO&G. After some discussion and a few minor changes, Exxon submitted the 15<sup>th</sup> POD in final on June 19, 1998. This process of meeting and reviewing the draft documents was beneficial to produce a comprehensive Plan of Development that is acceptable to the Unit Operator, all of the working interest owners and DO&G.

The 15<sup>th</sup> POD includes an update on the work completed during the term of the 14<sup>th</sup> POD and the Interim POD. It also includes plans to establish a common database, delineation plans, and development planning studies to be completed during the term of the 15<sup>th</sup> POD. Exxon plans to explore potential synergies between development of the oil and gas reserves in the unit area.

There has been considerable interaction between Exxon, the Working Interest Owners and DO&G over the past nine months to formulate a comprehensive plan to develop all potential reservoirs within the Point Thomson Unit Area. Finalizing Agreements between the Owners to share well and seismic data is the first step toward achieving an integrated plan of development. Only after those

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PTU Rec\_011830

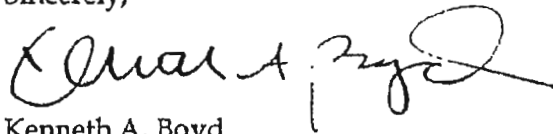
Exc. 000848

Exxon Company, U.S. A.  
Point Thomson Unit  
15th Plan of Development  
June 30, 1998  
Page 3

Agreements are in place can the Owners incorporate their information into a shared database. A shared database is essential to produce consensus maps of the reservoirs within the PTU. The Owners shall demonstrate the exchange of sufficient data by September 30, 1998, to map the work contemplated by the 15<sup>th</sup> POD or the unit will be in default. The Owners shall provide a status report to the DO&G on or before September 30, 1998, to demonstrate the progress toward completing the first step. The Owners shall create a common technical PTU database and consensus maps for all prospective reservoirs within the PTU by September 30, 1999. The Owners shall present the consensus maps to DO&G before the end of the 15<sup>th</sup> POD. A review of the oil rim study results will also be presented to DO&G by September 30, 1998. A review of the Parson's Study may be scheduled along with the other review meetings.

DO&G considered the criteria in 11 AAC 83.303 and finds that the 15<sup>th</sup> POD protects the public interest. The 15<sup>th</sup> POD is approved for the period July 1, 1998 through September 30, 1999. The 16<sup>th</sup> Plan of Development is due on July 2, 1999, 90 days before the 15<sup>th</sup> POD expires.

Sincerely,



Kenneth A. Boyd  
Director

cc: BP Exploration (Alaska) Inc.  
Chevron U.S.A. Inc.  
Mobil Oil Corporation  
Oxy U.S.A. Inc.  
Phillips Petroleum Company  
Arco Alaska Inc.  
Thompson, Dept. of Law

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MARK W. ALBERS  
ALASKA INTEREST  
EXXON COMPANY USA  
PO BOX 2180  
HOUSTON, TX 77252-2180

PS Form 3800, March 1993

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Exc. 000849



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PTU Rec\_011832

Exc. 000850

AMENDED DECISION

DENIAL OF THE PROPOSED PLANS FOR DEVELOPMENT OF THE  
POINT THOMSON UNIT

October 27, 2005

Findings and Decision of the Director, Division of Oil and Gas  
Under Delegation of Authority from the  
Commissioner, Department of Natural Resources, State Of Alaska

Revision Version

PTU Rec\_0012281

Exc. 000851

The Division of Oil and Gas (the Division) hereby amends the decision entitled *Denial of the Proposed Plans for Development of the Point Thomson Unit* dated September 30, 2005 (the Decision). The Decision included notice that the Division would hold a hearing under Article 21 of the Point Thomson Unit Agreement. The Decision is amended to remove certain items of work and all references to Article 21 because they do not apply to the Division's evaluation of the Unit Operator's proposed plans for development of the Point Thomson Unit.

Additions are shown in **bold and underlined** and deletions are shown [IN ALL CAPS IN BRACKETS].

## I. SUMMARY OF DECISION

This is the final Decision of the Alaska Department of Natural Resources, Division of Oil and Gas (the Division) on the Twenty-second Plan of Development (22<sup>nd</sup> POD) for the Point Thomson Unit (PTU) submitted by the PTU Operator, Exxon Mobil Corporation (Exxon), on August 31, 2005. The Division finds that the PTU Agreement is in default for Exxon's failure to submit an acceptable unit plan of development.

The PTU is underlain by a massive undeveloped gas and gas condensate reservoir that was discovered nearly 30 years ago, but the PTU oil and gas lessees have determined that production of the unitized substances is, in their view, not commercially viable. The 22<sup>nd</sup> POD proposes additional studies to determine if the PTU lessees can design a commercially viable production project.

The 22<sup>nd</sup> POD states that PTU development is not possible without modifying the current laws regarding the State's right to taxes and royalties on oil and gas production and on construction of a North Slope gas pipeline. The PTU Operator proposed integrating the lessees' PTU development obligations into negotiations for a fiscal contract with the State and proposed a two year delay of the development commitments made by the lessees in connection with an expansion of the PTU in 2001, both of which would make PTU development uncertain. The current fiscal contract negotiations may or may not lead to construction of a North Slope gas pipeline.

The premise that the PTU can only be developed if a North Slope gas pipeline is built is inappropriate. In addition to dry gas, the unit contains 100s of millions of barrels of hydrocarbon liquids. These hydrocarbon liquids could be produced using mostly existing oil pipelines without construction of a North Slope gas pipeline. Therefore, potential PTU development is not, in fact, limited to dry gas production. In addition, the PTU Agreement, which requires timely exploration, delineation, development, and production of unitized substances, does not guarantee the lessees' commercial success or provide for indefinite extension of the leases.

1. The 22<sup>nd</sup> POD is disapproved because it does not set out a plan to bring the PTU into commercial production within a reasonable time frame.
2. **Failure to obtain approval of the unit plan is grounds for default under the PTU Agreement and the State oil and gas regulations. Effective October 1, 2005, the PTU Agreement is in default.** Exxon has 90 days,

PTU Rec\_0012282

until December 29, 2005 to cure the default by submitting a unit plan that commits to timely development and production of unitized substances.

- [3. THIS DECISION PROVIDES NOTICE UNDER ARTICLE 21 OF THE PTU AGREEMENT THAT EXXON MUST INITIATE DEVELOPMENT OPERATIONS WITHIN THE PTU BY OCTOBER 1, 2007. THE DIVISION WILL CONTACT EXXON TO SCHEDULE A HEARING ON THIS ISSUE, WHICH WILL BE HELD NOT LESS THAN 30 DAYS FROM THE DATE OF THIS DECISION.]
- [4. THIS DECISION ALSO PROVIDES NOTICE UNDER THE INDIVIDUAL LEASE AGREEMENTS THAT THE PTU LEASES CONTAINING CERTIFIED WELLS MUST COMMENCE PRODUCTION IN PAYING QUANTITIES BY OCTOBER 1, 2009.]
- [5.]<sup>3</sup>. In addition, the Division denies Exxon's request for a one-year deferral of the Expansion Agreement commitments. If Exxon does not commence drilling within the PTU by June 15, 2006, the PTU boundary will contract and the contracted leases will no longer be held by unitization.

## II. BACKGROUND

The details of the PTU history set out below can be summarized as follows. Some of the PTU leases were issued over 40 years ago and the unit has been in existence for 28 years. The Division certified 7 exploration wells within and around the unit area as capable of producing hydrocarbons in paying quantities, but it has been 20 years since the last well was drilled. The Thomson Sand Reservoir is known to contain at least 8 trillion cubic feet of gas and 200 million barrels of gas condensate and oil. The PTU also contains 100s of millions of barrels of oil in the shallower Brookian reservoirs. The PTU lessees have not yet determined whether they can commercially produce PTU resources, and they have not committed to timely explore, delineate, or develop PTU oil, gas, or gas condensate. The unit operator has consistently proposed that more studies or workshops are needed before putting the PTU into production and, since 1983, has periodically asserted that production cannot begin until a North Slope gas pipeline is built.

The PTU is located on the North Slope of Alaska. The western unit boundary is approximately 3 miles east of the Badami Unit and 30 miles east of the Prudhoe Bay Unit (PBU), and the eastern unit boundary lies west of the western boundary of the Arctic National Wildlife Refuge (ANWR). The southern PTU boundary is onshore, and the northern boundary is offshore in the Beaufort Sea, adjacent to or near the three-mile territorial sea boundary that separates state from federal Outer Continental Shelf (OCS) lands. The PTU consists of 45 state oil and gas leases encompassing approximately 106,200.55 acres. The state owns the entire subsurface estate within the unit area.

Twenty-five lessees hold working interest ownership in the PTU (PTU Owners), and Exxon is the designated Unit Operator. Ownership is calculated based on a lessee's percent of working interest ownership in each lease multiplied by the lease acreage, as a percentage of the total unit acreage. On a surface acreage basis, the Major PTU Owners hold 98.9056% of the PTU: Exxon

PTU Rec\_0012283

52.5779%<sup>1</sup>, BP Exploration (Alaska) Inc. (BPXA) 29.1943%, Chevron U.S.A. Inc. (Chevron) 14.3125%, and ConocoPhillips Alaska, Inc. (CPAI) 2.821%. The Minor PTU Owners include twenty entities that hold the remaining 1.0944% interest in the PTU.

The Division approved the PTU Agreement effective August 1, 1977, with a five-year Initial Plan of Exploration. The original unit area included 18 state oil and gas leases comprising approximately 40,768 acres. The PTU Owners drilled 11 wells in and around the unit area between 1978 and 1983, and the Division certified six of those wells as capable of producing hydrocarbons in paying quantities under the regulations<sup>2</sup> and the PTU Agreement.<sup>3</sup>

On March 26, 1984, the Division approved an application to expand the unit area on condition that the PTU Owners drill a well on one of the two southern expansion leases by March 31, 1985, and a well on one of the ten northern expansion leases by February 1, 1990. The expansion added approximately 94,152 acres within 25 leases to the PTU. The PTU Owners failed to meet both drilling commitments; therefore, the two southern expansion leases and nine northern expansion leases contracted out of the PTU.<sup>4</sup>

In 1998, the Division denied a unit expansion application, which was submitted by Exxon as the owner of the proposed expansion lease, rather than as the PTU Operator; because it was not supported by the other PTU Owners. The Division found that adding a lease to a unit where the owners have demonstrated a lack of cooperation may discourage, rather than encourage, unit development. The Division's denial of Exxon's 1998 PTU expansion application instigated negotiations between the Division and the PTU Owners to redefine the unit boundary. Supporting technical data indicated that the Thomson Sand Reservoir extended beyond the existing unit boundary and that other portions of the unit were not underlain by known hydrocarbons.

---

<sup>1</sup> Exxon Mobil Corporation holds 43.2361% working interest ownership in the PTU and ExxonMobil Oil Corporation holds 9.3418%, jointly referred to as Exxon.

<sup>2</sup> 11 AAC 83.361. Certification of Well Test Results. "For the purposes of 11 AAC 83.301 – 11 AAC 83.395, a well will be considered capable of producing hydrocarbons in paying quantities, as defined in 11 AAC 83.395, when so certified by the commissioner following application by the lessee or unit operator. The commissioner will require the submission of data necessary to make the certification, including all results of the flow test or tests, supporting geological data, and cost data reasonably necessary to show that the production capability of the well satisfies the economic requirements of the paying quantities definition." 11 AAC 83.395. Definitions. "Unless the context clearly requires a different meaning, in 11 AAC 83.301 – 11 AAC 83.395 and in the applicable unit agreements, ... (4) 'paying quantities' means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities;"

<sup>3</sup> PTU Agreement, Article 9, Drilling to Discovery. "Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Director, ... and thereafter continue such drilling diligently until the top 100 feet of the Pre-Mississippian formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) ..."

<sup>4</sup> One of the northern expansion leases remained committed to the PTU because a well drilled on that lease in 1982 was certified as capable of producing in paying quantities.

PTU Rec\_0012284

On February 2, 2001, Exxon applied to simultaneously expand and contract the PTU boundary. On July 31, 2001, the Division and the PTU Owners entered into an agreement in which the Division approved an expansion of the unit area in return for the PTU Owners' commitment to do certain items of work. This agreement also provided that the expansion leases would contract out of the unit and the PTU Owners would pay the State certain sums of money if the work was not done. This "*Agreement Resolving All Pending Point Thomson Unit Expansion/Contraction Matters and Proceedings*" (Expansion Agreement) identified seven Expansion Areas and one Work Commitment Area (WCA) outside of the preexisting PTU (All together referred to as "Expansion Acreage"). The Expansion Agreement included the following work commitments by the PTU Owners:

1. WCA Drilling Commitment: Drill a well through the Thomson Sand interval within the Work Commitment Area by June 15, 2003, or the WCA acreage would automatically contract out the PTU on that date. Drilling a new well or deepening the Red Dog #1 Well would have fulfilled the WCA Drilling Commitment
2. 2006 Development Drilling Commitment: Commence development drilling in the PTU by June 15, 2006, or all of the Expansion Acreage would automatically contract out of the unit effective that date, and the PTU Owners would pay the State \$20,000,000 by July 1, 2006, to compensate for the unrealized bonus payments during the period that the Expansion Acreage was withheld from leasing.
3. 2008 Development Drilling Commitment: Complete drilling seven development wells in the PTU by June 15, 2008, or all of the Expansion Acreage would automatically contract out of the unit effective that date, and the PTU Owners would pay the State \$27,500,000 by July 1, 2008, to compensate for the unrealized bonus payments during the period that the Expansion Acreage was withheld from leasing.
4. Participating Area Commitment: Allocate production to the Expansion Acreage within a participating area approved by the Division by certain deadlines. The participating area commitment date is June 15, 2008, for Expansion Acreage primarily underlain by the Thomson Sand Reservoir; and June 15, 2010, for Expansion Acreage primarily underlain by a Brookian prospect.

In addition, the Expansion Agreement imposed contraction provisions and charges of up to \$27,500,000 if the PTU Owners failed to meet the drilling commitments. The Agreement also increased royalty rates on eight of the twelve expansion leases; from 12.5% to 16.66667% on one lease, and from 16.66667% to 20% on the other seven leases.

The May 24, 2002 Findings and Decision contains the Division's evaluation of the Expansion Agreement, which resulted in the Second Expansion and Third Contraction of the PTU. The Expansion Agreement added approximately 40,353 acres within 12 leases to the PTU, and excluded all or portions of 4 leases, containing approximately 7,572 acres; an overall increase in

PTU Rec\_0012285

the unit area of 39 percent. The revised unit area encompassed approximately 116,607 acres within 46 leases.

The PTU Owners based the Expansion Agreement on their assumption that they could engineer and develop a commercially viable gas cycling project. In a gas cycling project natural gas is produced, gas condensates are removed, and the dry gas is re-inject back into the reservoir for later production. The PTU Owners would need to build a pipeline from the PTU to connect with the Badami Unit pipeline to ship the gas condensates through the existing Trans-Alaska oil pipeline for sale. The Expansion Agreement provided that if PTU Owners found, in their view, the project to be uneconomic by June 15, 2003 (the Contraction Election Deadline), the PTU Owners could elect to contract all of the Expansion Acreage out of the PTU, pay the State \$8,000,000 to compensate for the unrealized bonus payments during the period that the acreage was withheld from leasing, and be released from the remaining obligations in the Expansion Agreement.

The Division approved subsequent unit plans that described the PTU Owner's proposed plans for development of a gas cycling project including: facility design, preliminary engineering, updating the PTU geologic model, and initiating the permitting process. However, in the Nineteenth POD, approved effective October 1, 2002, Exxon stated that the PTU Owners could not justify drilling an exploration well in the WCA, the first drilling commitment in the Expansion Agreement, due to their findings that the costs would be higher and the potential accumulation smaller than they had previously anticipated.

On January 29, 2003, the Division found that the geological and geophysical data supported Exxon's proposal to transfer ADL 389728 from the WCA to Expansion Area #1. This amendment of the Expansion Agreement increased the applicable royalty rate for ADL 389728 from 16.66667% to 20% and the PA Extension Charge for Expansion Area #1 from \$17,031,000 to \$21,289,000.

Under the terms of the Expansion Agreement, the two remaining leases in the WCA contracted out of the PTU and the PTU Owners relinquished their interest in the leases effective January 21, 2003 and the PTU Owners paid the State \$940,000 because they failed to fulfill the first drilling commitment.

On April 24, 2003, Exxon requested a two-year extension of the next three deadlines in the Expansion Agreement: the Contraction Election Deadline, the 2006 Development Drilling Commitment, and the 2008 Development Drilling Commitment.

On May 15, 2003, the Division approved a one-month extension of the Contraction Election Deadline, but the Development Drilling Commitments were unchanged. On June 20, 2003, the PTU Owners requested an additional six-month extension of the Contraction Election Deadline. On July 14, 2003, the Division approved the Twentieth POD for the period October 1, 2003 through September 30, 2004, during which time, Exxon planned to acquire the necessary permits and approvals for the gas cycling project while evaluating the Thomson reservoir structure and reserve estimates to move the gas cycling project toward the next phase of funding approval. This decision also extended the Contraction Election Deadline until January 15, 2004 as follows:

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- a) On or before July 15, 2003, the Working Interest Owners may elect to contract all of the Expansion Acreage out of the PTU, pay the State of Alaska \$8,000,000 to compensate for the unrealized bonus payments during the period that the acreage was withheld from leasing (Extension Charge), and be released from the remaining obligations imposed in the Decision. The Extension Charge will be due on August 1, 2003.
- b) Notwithstanding the foregoing, the above described deadline for election is hereby extended for a period of six months, until January 15, 2004, in exchange for an increase of the Extension Charge by the sum of \$2,000,000, provided that, at any time during such six-month extended period, the PTU Owners may provide notification of their election hereunder, in which event the total Extension Charge of \$10,000,000 shall be reduced by an amount equal to 1/12 of \$4,000,000 for each full month of such six-month period remaining.

The Division agreed to extend the Contraction Election Deadline on May 15 and again on July 14, 2003, to allow additional time for the PTU Owners to further evaluate their proposed gas cycling project. The PTU Owners presented their current interpretation of the PTU geologic model and updated in-place and recoverable hydrocarbons estimates to the Division on October 16, 2003. Unfortunately, the PTU Owners' assessment of their proposed gas cycling project indicated higher costs and lower liquid recovery than they had previously estimated.

In a letter dated December 18, 2003, Exxon stated that engineering and resource evaluation work confirmed that, in their view, development of the resource at PTU is challenged. The resource evaluation work resulted in a significant reduction in condensate recovery under the PTU Owners' conceptual design for a gas cycling project. In addition, they found that their engineering design, along with permitting and environmental requirements added significant cost to the gas cycling project. After evaluating potential cost reduction measures and alternate development plans, Exxon concluded "that a standalone project prior to gas sales is not economically viable under the current fiscal system." Exxon's letter went on to request a further extension of the Contraction Election Deadline, until June 15, 2006. The Division's denial of Exxon's requested extensions provides in part:

"Over the past year, the Owners reviewed the geologic model, recalculated the recoverable liquid hydrocarbons, refined the engineering design to better estimate the cost of development, began evaluating the environmental impacts through the federal permitting process, and considered alternate development scenarios. Through these activities, the Owners determined that the gas cycling project is currently uneconomic and suspended the permitting process indefinitely. Representatives from ExxonMobil met with division staff on December 2, 2003, to discuss possible revisions to the State's current fiscal system that might make the gas cycling project commercially viable. However, the Owners have not made any specific proposals that would warrant a further extension of the Contraction Election Deadline.

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Without a commercially viable project, the Owners may surrender the expansion acreage, pay the \$10 million Extension charge, and be released from the remaining obligations in the Decision. If the Owners do not exercise this option, they must begin development drilling in the PTU by June 15, 2006, or all of the Expansion Acreage will automatically contract out of the PTU and the Owners will pay \$20 million to the State of Alaska. We trust that the Owners will continue to evaluate options to economically produce the known hydrocarbon resources underlying the PTU, and look forward to reviewing the proposed PTU Twenty-First Plan of Development in July 2004."

Although the PTU Owners found the gas cycling project to be uneconomic, they did not exercise their option to contract the Expansion Acreage out of the PTU prior to the January 15, 2004 Contraction Election Deadline.

The Twenty-first POD, dated August 31, 2004, stated that the PTU Owners were unable to identify a viable gas cycling project under the current fiscal terms and they planned to focus on gas sales rather than gas cycling. The Twenty-first POD included a proposal to share with the Division the results of the PTU studies including reserve estimates, distributions, and mapping for the Thomson Sand Reservoir as well as the Brookian and Pre-Mississippian reservoirs within the unit area and provide financial and technical information so the Division could conduct an independent economic evaluation of the PTU Owners' gas cycling project. But the WIOs would only provide this information if the Division executed an extraordinary confidentiality agreement.

North Slope producers Exxon, BPXA, and CPAI (Sponsor Group), three of the Major PTU Owners, submitted an application to the State under the Stranded Gas Development Act (SGDA), which proposed a fiscal contract that may or may not lead to construction of a major North Slope gas pipeline. The Sponsor Group does not officially represent the PTU, the PBU or any other unitized area on the North Slope. During the Twenty-first POD, the PTU Owners planned to evaluate the technical and commercial issues necessary for the PTU Owners to participate in a future open season for major gas sales from the North Slope.

On September 23, 2004, the Division approved the Twenty-first POD, on condition that Exxon provide the Division with existing technical information, costs, and other fiscal assumptions necessary for the Division to conduct an economic analysis of the PTU Owners' gas cycling project. The Division reminded Exxon of the statutory and regulatory confidentiality protections accorded sensitive information, and notified Exxon that the Division would not execute the proposed confidentiality agreement. The Division requested that Exxon provide copies of all of the requested data no later than November 15, 2004. In addition, the Division's approval of the Twenty-first POD required that the 22<sup>nd</sup> POD contain specific plans to fulfill the 2006 drilling commitment set forth in the Expansion Agreement.

Exxon appealed the Division's decision on the Twenty-first POD to the Commissioner of the Department of Natural Resources (the Commissioner). But on November 15, 2004, Exxon had delivered a set of technical data to the Division. The Commissioner affirmed the Division's Twenty-first POD decision on November 24, 2004.

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On June 21, 2005, Exxon proposed amending the Expansion Agreement such that the Expansion Acreage leases would remain within the PTU while the State and Sponsor Group continue negotiations over a fiscal contract and for the duration of any resulting fiscal contract. On July 1, 2005, the Division received Exxon's proposed 22<sup>nd</sup> POD, which included an update on activities during the term of the Twenty-first POD and planned activities during the one-year term of the 22<sup>nd</sup> POD. Exxon reported that the PTU Owners had incorporated the results of the prior geologic model, updated reservoir simulation, facility design, and cost estimates into a conceptual depletion plan for the PTU gas sales project. Under that plan, the PTU Owners would produce PTU gas and send it to the PBU for further processing before shipping it via a North Slope gas pipeline for sale, but did not specify a time-frame for development.

The 22<sup>nd</sup> POD did not commit to timely development or production of unitized substances. Instead, it proposed further development of the gas sales conceptual depletion plan so the PTU Owners would be prepared to participate in some future open season for nominations to a North Slope gas pipeline. The 22<sup>nd</sup> POD provides that the exact timing of the open season will be dependent, in part, upon the successful completion of a fiscal contract under the SGDA. During the term of the 22<sup>nd</sup> POD, the PTU Owners planned to monitor the progress of the negotiations under the SGDA and adjust the PTU work schedule as necessary to participate in an open season. The 22<sup>nd</sup> POD included the items of work summarized as follows:

1. Incorporate geologic modeling of the Thomson Sand aquifer uncertainty and the Pre-Mississippian bedded facies in the reservoir simulation model to form the basis of a major gas sales depletion plan.
2. Initiate more detailed facility design or Conceptual Engineering.
3. Determine optimum drillsite and well locations and update drilling and completion plan costs to estimate total project costs and timing.
4. Share the results of the above tasks with the Division.
5. Begin planning the permitting process for the PTU gas sales project.
6. Continue working to obtain all PTU Owners' approval of a new PTU Operating Agreement.
7. Assist the Division with its independent assessment of the commercial viability of the gas cycling project.

The Division's July 27, 2005 response indicated that it would not accept Exxon's proposal to amend the Expansion Agreement by tying it to the SGDA negotiations or relieve the PTU Owners of the work commitments they made in return for including the Expansion Acreage in the PTU. However, the Division indicated that it would be willing to extend the 2006 and 2008 Development Drilling Commitments, if the PTU Owners agreed to drill an exploration/delineation well, in lieu of a development well, by June 15, 2006 that could provide pertinent information pertaining to appropriate development of the western portion of the

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Thomson Sand Reservoir. The Division gave Exxon ten days to submit an acceptable plan, which should include the following items:

1. ExxonMobil shall drill an exploration/delineation well within the PTU by June 15, 2006.
2. The well must be drilled to the Mississippian basement and located to
  - a. delineate the Thomson Reservoir west of the PTU #1 well,
  - b. evaluate connectivity and continuity within the Thomson Reservoir, and
  - c. evaluate the extent of and the hydrocarbon properties within the oil rim.
3. ExxonMobil shall apply to the Alaska Oil and Gas Conservation Commission for Pool Rules and a depletion plan for the Thomson Reservoir.
4. ExxonMobil shall prepare a schedule of activities to obtain the necessary permits for construction of the PTU facilities and pipelines.
5. ExxonMobil shall compare core samples from the Badami wells with the appropriate PTU wells to evaluate the Brookian reservoirs within the PTU.

Division staff discussed the requested modifications to the 22<sup>nd</sup> POD with the PTU Owners on July 27, 2005, and on August 1, Exxon indicated that they would respond to the Division by the end of the month.

On August 31, 2005, Exxon submitted a revised 22<sup>nd</sup> POD and a letter requesting a one-year deferral of both the 2006 and 2008 Development Drilling Commitments, rather than an indefinite extension under the SGDA. The 22<sup>nd</sup> POD stated that the PTU Owners could not justify drilling an exploration well, but Exxon offered to hold a workshop with Division staff to evaluate whether drilling exploration/delineation wells could provide valuable information that would reduce the uncertainty associated with the western portion of the Thomson Sand Reservoir. Other than a commitment to drill an exploration/delineation well by June 15, 2006, the revised 22<sup>nd</sup> POD included the other modifications that the Division had requested. However, without a commitment to drill an exploration/delineation well within the PTU while requesting deferral of the Development Drilling Commitments and tying development activities in the 22<sup>nd</sup> POD to the SGDA, the PTU Owners' plans for development of the PTU are unacceptable.

### **III. STATE STATUTES, REGULATIONS, AND PTU AGREEMENT PROVISIONS RELEVANT TO EVALUATION OF THE PTU OWNERS' PLANS FOR DEVELOPMENT OF THE PTU**

The standards and criteria for approval of unit plans are primarily set out in the State statute and regulations, and the applicable unit agreement.

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## A. State Statute and Regulations

The Commissioner, or his designee, may approve a unit plan if he determines it is necessary or advisable in the public interest.<sup>5</sup> The following statutes and regulations govern approval of unit plans:

AS 38.05.180(p) provides, in part:

To conserve the natural resources of all or part of an oil or gas pool, field, or like area, the lessees and their representatives may unite with each other, or jointly or separately with others, in collectively adopting or operating under a cooperative or unit plan of development or operation of the pool, field, or like area, or part of it, when determined and certified by the commissioner to be necessary or advisable in the public interest. . . . The commissioner may require oil and gas leases issued under this section to contain a provision requiring the lessee to operate under a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee must operate. The plan must adequately protect all parties in interest, including the state. "

[AS 38.05.180 (Q) PROVIDES, IN PART,

A PLAN AUTHORIZED BY (P) OF THIS SECTION, WHICH INCLUDES LAND OWNED BY THE STATE, MAY CONTAIN A PROVISION VESTING THE COMMISSIONER, OR A PERSON, COMMITTEE, OR STATE AGENCY, WITH AUTHORITY TO MODIFY FROM TIME TO TIME THE RATE OF PROSPECTING AND DEVELOPMENT AND THE QUANTITY AND RATE OF PRODUCTION UNDER THE PLAN.]

Under State regulation 11 AAC 83.303(a), the Director will approve a unit plan of development upon finding that it will: 1) promote the conservation of all natural resources; 2) promote the prevention of economic and physical waste; and 3) provide for the protection of all parties of interest, including the State. Subsection .303(b) sets out six factors that the Director will consider in evaluating a proposed unit plan.

11 AAC 83.343, Unit Plan of Development, provides as follows:

(a) A unit plan of development must be filed for approval as an exhibit to the unit agreement if a participating area is proposed for the unit area under 11 AAC 83.351, or when a reservoir has become sufficiently delineated so that a prudent operator would initiate development activities in that reservoir. All development operations must be conducted under an approved plan of development. A unit plan of development must contain sufficient information for the commissioner to determine whether the plan is consistent with the provisions of 11 AAC 83.303. The plan must include a description of the proposed development activities based on data reasonably available at the time the plan is submitted for approval as well

<sup>5</sup> By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 that delegated this authority to the Director of the Division of Oil and Gas.

as plans for the exploration or delineation of any land in the unit not included in a participating area. The plan must include, to the extent available information exists:

- (1) long-range proposed development activities for the unit, including plans to delineate all underlying oil or gas reservoirs, bring the reservoirs into production, and maintain and enhance production once established;
- (2) plans for the exploration or delineation of any land in the unit not included in a participating area;
- (3) details of the proposed operations for at least one year following submission of the plan; and
- (4) the surface location of proposed facilities, drill pads, roads, docks, causeways, material sites, base camps, waste disposal sites, water supplies, airstrips, and any other operation or facility necessary for unit operations.

(b) The commissioner will approve the unit plan of development if it complies with the provision of 11 AAC 833.303. If the proposed unit plan of development is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(c) The unit plan of development must be updated and submitted to the commissioner for approval at least 90 days before the expiration date of the previously approved plan, as set out in that plan. The update must describe the extent to which the requirements of the previously approved plan were achieved; if actual operations deviated from or did not comply with the previously approved plan, an explanation of the deviation or noncompliance must be included in the update. ... After the commissioner has determined that an updated unit plan of development is complete as submitted, or as modified by the unit operator following the commissioner's suggestions, the commissioner will have an additional 60 days in which to approve or disapprove the plan; if no action is taken by the commissioner, the update of the unit plan of development is approved.

(d) The unit operator shall submit an annual report to the commissioner describing the operations conducted under the unit plan of development during the preceding year.

(e) The unit operator may, with the approval of the commissioner, amend an approved plan of development.

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## B. The PTU Agreement Provisions

~~The following PTU Agreement provisions are relevant to the Division's evaluation of the PTU Owners' plans for development of the PTU.~~

Article 10, Plan of Further Development and Operation, provides as follows:

Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Director an acceptable plan of development and operation for the unitized land which, when approved by the Director, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Director a plan for an additional specified period for the development and operation of the unitized land. The Unit Operator expressly covenants to develop the unit area as a reasonably prudent operator in a reasonably prudent manner.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Director may determine to be necessary for timely development and proper conservation of oil and gas resources of the unitized area, and shall:

- (a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and,
- (b) to the extent practicable, specify the operating practices regarded as necessary and advisable for the proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Director.

Said plan or plans shall be modified or supplemented when necessary to meet changed conditions, or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. ...

Article 16, Conservation, states:

Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state law or regulation.

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Article 20, Effective Date and Term, provides in part:

This agreement shall become effective upon approval by the Commissioner or his ~~duly authorized representative as of the date of approval by the Commissioner and~~ shall terminate five (5) years from said effective date unless:

- (a) such date of expiration is extended by the Commissioner, or
- (b) it is reasonably determined ... that the unitized land is incapable of production of unitized substances in paying quantities ... or
- (c) a valuable discovery of unitized substances has been made or accepted on unitized land during the said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or
- (d) it is terminated as heretofore provided in this agreement. ...

[ARTICLE 21, RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION, PROVIDES IN PART:

... THE DIRECTOR IS ALSO HEREBY VESTED WITH AUTHORITY TO ALTER OR MODIFY FROM TIME TO TIME AT HIS DISCRETION THE RATE OF PROSPECTING AND DEVELOPMENT AND THE QUANTITY AND RATE OF PRODUCTION UNDER THIS AGREEMENT WHEN SUCH ALTERATION OR MODIFICATION IS IN THE INTEREST OF ATTAINING THE CONSERVATION OBJECTIVES STATED IN THIS AGREEMENT AND IS NOT IN VIOLATION OF ANY APPLICABLE STATE LAW.

POWERS IN THIS SECTION VESTED IN THE DIRECTOR SHALL ONLY BE EXERCISED AFTER NOTICE TO UNIT OPERATOR AND OPPORTUNITY FOR HEARING TO BE HELD NOT LESS THAN THIRTY (30) DAYS FROM NOTICE, AND SHALL NOT BE EXERCISED IN A MANNER THAT WOULD (I) REQUIRE ANY INCREASE IN THE RATE OF PROSPECTING, DEVELOPMENT OR PRODUCTION IN EXCESS OF THAT REQUIRED UNDER GOOD AND DILIGENT OIL AND GAS ENGINEERING AND PRODUCTION PRACTICES; OR (II) ALTER OR MODIFY THE RATES OF PRODUCTION FROM THE RATES PROVIDED IN THE APPROVED PLAN OF DEVELOPMENT AND OPERATIONS THEN IN EFFECT ...; OR (III) PREVENT THIS AGREEMENT FROM SERVING ITS PURPOSE OF

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ADEQUATELY PROTECTING ALL PARTIES IN INTEREST HEREUNDER,  
SUBJECT TO APPLICABLE CONSERVATION LAWS AND  
REGULATIONS.]

#### IV. ANALYSIS OF THE PTU OWNERS' PLANS FOR DEVELOPMENT OF THE PTU

A discussion of the subsection 11 AAC 83.303(b) criteria, as they apply to the PTU Owners' plans for development of the PTU, is set out directly below, followed by the Director's findings relevant to the subsection .303(a) criteria, and the Director's decision.

##### 1. Prior Exploration Activities and Geological and Engineering Characteristics of the PTU

The Thomson Sand Reservoir is the primary reservoir in the PTU, consisting of the Lower Cretaceous Thomson Sand interval trending generally west-northwest across the unit, and between approximately -12,780' and -13,128' tvdss<sup>6</sup> in the Point Thomson Unit #1 discovery well (PTU1) drilled by Exxon in 1977. Exxon estimates that the Thomson Sand Reservoir contains approximately 8 trillion cubic feet (TCF) of gas and over 200 million barrels (MMB) of recoverable gas condensate with a discontinuous heavy-oil rim. The reservoir pressure is extremely high, around 13,000 pounds per square inch (psi). Other potentially productive reservoirs present in the PTU include Brookian Lower Tertiary turbidite sands and what are informally referred to as the "Pre-Mississippian" carbonates. Although the Sourdough well data remain confidential, in 2001 BPXA disclosed that the wells encountered recoverable reserves of approximately 200 MMB in the Brookian section. All three reservoirs are, or may be, over-pressured throughout much of the PTU.

A subsurface ridge-like structural feature constrains the northern edge of the Thomson Sand accumulation. While Thomson Sand presence, hydrocarbon charge, and thickness are uncertain on the north flank of the feature, it is possible that the Thomson Sand Reservoir is present north of the feature within Expansion Area #6.

Eighteen exploration wells have been drilled within and around the PTU. At the request of the Unit Operator, the Division certified seven PTU wells as capable of producing hydrocarbons in paying quantities and granted five wells extended confidentiality<sup>7</sup>. The public PTU well data is summarized in Attachment 1 to this decision.

The available well data allows the Thomson Sand Reservoir to be described as very fine-grained sand along the southern margin of the unit coarsening northward to a conglomeratic facies and

<sup>6</sup> Total vertical depth subsurface (below sea level).

<sup>7</sup> 20 AAC 25.537. Public and Confidential Well Information. "(d) Except as provided by (a) of this section, the reports and information required by this chapter to be filed by the operator will be kept confidential by the commission for 24 months following the 30-day filing period after well completion, suspension, or abandonment unless the operator gives written and unrestricted permission to release all of the reports and information at an earlier date. Upon notification that the commissioner of the Department of Natural Resources has made a finding that the required reports and information from a well contain significant information relating to the valuation of unleased land in the same vicinity, the commission will hold the reports and information confidential beyond the 24-month period and until notified by the commissioner of the Department of Natural Resources to release the reports and information."

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exhibiting an average porosity of about 16%. Permeability within the reservoir varies from 10 millidarcies (md) to more than 1,000 md.

~~The PTU Owners also acquired extensive seismic data over the unit. They merged and began~~ prestack depth migration processing of four 3D seismic surveys, which cover essentially the entire unit area: the Point Thomson Unit, Flaxman Lagoon, Island Corridor West, and Challenge Island surveys. Merging the seismic data sets produced a more unified interpretation of the extent of the Thomson Sand Reservoir over the greater unit area. The well and geophysical data indicate that much of the PTU is underlain or is potentially underlain by oil, natural gas and gas condensate deposits in the Thomson Sand Reservoir, and by Brookian oil deposits. There also appears to be a thin and potentially discontinuous oil leg at the bottom of the Thomson Sand Reservoir. The PTU owners incorporated the well and seismic data into a common database, which is the basis for the PTU Owners' Thomson Sand Geologic and Reservoir Simulation Models.

The Sixteenth POD, submitted by Exxon on July 30, 1999, included a commitment to conform the unit boundary to consensus maps of the potential reservoirs. During the term of the Sixteenth POD, the PTU Owners developed consensus structure and isochore maps of the Thomson Sand Reservoir and five potential Brookian accumulations; and initiated unit expansion discussions with adjacent leaseholders. On July 31, 2001, the Division and the PTU Owners executed the Expansion Agreement, which restructured the unit boundary in exchange for the PTU Owners' exploration and development commitments.

The Eighteenth POD, approved effective October 1, 2001, included activities toward fulfilling the Expansion Agreement, including selecting a location and contracting for a rig to drill an exploration/delineation well in the WCA. During the term of the Eighteenth POD, the PTU Owners completed prestack depth migration of the combined PTU 3D data set (Point Thomson Unit, Challenge Island, Island Corridor West and Flaxman Lagoon) over the redefined unit area. Exxon continued to pursue facility design, engineering and geological studies, and environmental analysis toward development of the Thomson Sand Reservoir, and initiated the federal permitting process for a gas cycling project, which moved from conceptual engineering to front-end engineering and facility design during the Eighteenth POD.

In the Nineteenth POD, dated August 8, 2002, Exxon notified the Division that the PTU Owners would not drill an exploration well prior to the WCA Drilling Commitment deadline of June 15, 2003. The State and Exxon executed a Memorandum of Understanding to facilitate the State permitting process for the gas cycling project and Exxon proceeded with engineering design of the surface facilities during the term of the Nineteenth POD. On June 24, 2003, the PTU Owners presented their updated stratigraphic and structural interpretation of the Thomson Sand Reservoir, based on the merged PTU seismic data, to Division staff.

During the term of Twentieth POD, October 1, 2003 through September 30, 2004, the PTU Owners completed a number of technical studies to evaluate Thomson Reservoir quality, fault seal, and structural framework; which, to the PTU Owners, indicated a chance of greater compartmentalization and a higher risk of sand production. The PTU Owners also studied alternative facility designs and identified cost reduction measures for their proposed gas cycling project. The PTU Owners stated that, in their view, their proposed gas cycling project is not

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commercially viable. Exxon suspended all permitting activities for their proposed gas cycling project and deferred evaluation of the Pre-Mississippian formation that underlies the Thomson Sand Reservoir. The PTU Owners incorporated the results of the prior geologic model, updated reservoir simulation, facility design, and cost estimates into a depletion plan for a conceptual PTU gas sales project.

Despite rigorous analyses of seismic data, the depth of the subsurface geological structure of the Thomson Sand Reservoir west of the PTU1 well remains suspect and introduces substantial uncertainty about reservoir connectivity and continuity, fluid contacts, and the character of the underlying oil rim between the eastern and western areas of the PTU. An exploration/delineation well in this area would provide geologic and reservoir data that could confirm or reduce the structural uncertainty and aid the subsequent determination of recoverable reserves and development options for the PTU.

The PTU Owners' prior exploration activities identified several hydrocarbon accumulations within the unit area that are capable of production in paying quantities. The geological and engineering data indicate that the PTU is underlain by the Thomson Sand Reservoir, which contains significant oil, gas, and gas condensate reserves, and several Brookian oil reservoirs. However, there has been no further delineation of the known accumulations or exploration within the PTU since BPXA drilled the Sourdough #3 well in 1996. The PTU Owners have not yet begun development or production of the known hydrocarbon resources within the unit, and the 22<sup>nd</sup> POD does not contain any commitments to do so. Therefore, the criteria in 11 AAC 83.303(b)(2) and .303(b)(3), do not support approval of the 22<sup>nd</sup> POD.

## 2. The PTU Owners' Plans for Development of the PTU

Although the Thomson Sand Reservoir was discovered in 1977 and the PTU contains several known hydrocarbon accumulations that are capable of producing in paying quantities, the PTU Owners have not committed to put the unit into commercial production. Instead, the PTU Owners propose that more studies are needed and a fiscal contract changing the State's royalty and tax share is required before they can begin development of the PTU.

According to Exxon, the focus of the 22<sup>nd</sup> POD is on preparing for a potential open season for major gas sales from the North Slope. The 22<sup>nd</sup> POD states

The timing of the open season process will be dependent upon successful completion of a fiscal contract between the Sponsor Group and the SoA under the Stranded Gas Development Act (SGDA). During the next year, the Owners will monitor progress of the contract negotiations under the SGDA and be prepared to adjust the work schedule to ensure the necessary work is conducted in sufficient time to allow the Owners to prepare for an open season for an Alaska gas pipeline while maximizing the efficiency of the work processes and sequence.

The Sponsor Group consists of only three of the Major PTU Owners: Exxon, BPXA, and CPAI, and does not officially represent the PTU lessees. The State is also negotiating with two other applicants that submitted proposals to build a North Slope gas pipeline. Depending on the

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progress of the negotiations, it is unlikely that a North Slope gas pipeline will be in operation before 2012, and the Sponsor Group has not yet made a public commitment to ever build a North Slope gas pipeline. However, regardless of the status of those negotiations, the PTU Owners have an obligation to diligently explore, delineate, and develop the hydrocarbon resources underlying the unit area.

The 22<sup>nd</sup> POD states that field activities associated with development drilling should begin three to three and one-half years before field startup, but it does not indicate when, if ever, an open season might occur or when, if ever, Exxon anticipates the commencement of development or production. At this point in time, the PTU Owners do not control if or when a North Slope gas pipeline will ever be operational. Reliance on third parties, beyond the control of the PTU Owners, is not grounds for the delay of PTU development and production.

While previous plans focused on developing unitized substances through a gas cycling project, the PTU Owners stated that project was not commercially viable and redirected their efforts to evaluate PTU development through gas sales. The 22<sup>nd</sup> POD describes several activities that the PTU Owners plan to execute during the next year to evaluate a conceptual PTU gas sales project, but those activities are all contingent on the Sponsor Group successfully negotiating a fiscal contract with the State under the SGDA.

The 22<sup>nd</sup> POD outlines the unit operator's plans for one year beginning October 1, 2005. Exxon plans to update the PTU geologic model and incorporate the results in the reservoir simulation to identify potential upside gas production from the Pre-Mississippian section. The technical studies will be the basis for a gas sales depletion plan followed by conceptual engineering for detailed facility design. The 22<sup>nd</sup> POD anticipates completing the depletion plan in April 2006 and initiating conceptual engineering, a 9 to 12 month process that must be completed in time for the PTU Owners to be prepared to nominate gas in an open season, should one occur. During the conceptual engineering process, the PTU Owners plan to determine optimum drillsites and well locations, and update drilling and completion costs to estimate total project costs and timing. PTU conceptual engineering will also include provisions for Brookian development, which Exxon anticipates will occur after it develops the Thomson Sand Reservoir. However, the 22<sup>nd</sup> POD did not identify a firm date for the start of production.

During the 22<sup>nd</sup> POD, the PTU Owners plan to assess the permitting requirements for PTU gas sales. They will review the previous permitting activities undertaken for the gas injection project, evaluate the need for additional data and studies, and assess the interrelationship between permitting for PTU development and for the Alaska gas pipeline project. The PTU Operator will also apply to the AOGCC for a conservation order that addresses gas offtake and depletion plans for the Thomson Sand Reservoir and discuss other conservation orders needed for PTU development. Based on the permitting assessment, Exxon will update the project timeline and prepare a schedule of activities to obtain the permits and conservation orders needed to drill the PTU wells and to construct and operate the facilities and pipelines.

To address the Division's concern about reservoir uncertainty in the western unit area, the 22<sup>nd</sup> POD includes Exxon's offer to hold a workshop to evaluate whether drilling delineation wells could provide valuable information that would reduce the uncertainty associated with the western

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Thomson Sand Reservoir. The 22<sup>nd</sup> POD also includes plans to compare core samples from PTU and Badami wells to evaluate potential development of Brookian prospects within the PTU.

While there is some benefit to the proposals in the 22<sup>nd</sup> POD, it does not contain sufficient plans or commitments to timely develop and produce unitized substances. The PTU Owners are not entitled to condition development of the PTU on the construction of a pipeline by a third party or on modification of the state's royalty and tax rights. PTU Owners' plans for delineation and development of the unit area do not justify approval of the 22<sup>nd</sup> POD or the PTU Owners' request for extension of the 2006 and 2008 Development Drilling Commitments. The 22<sup>nd</sup> POD does not meet the criteria in section 11 AAC 83.303(b)(4).

### 3. Economic Costs and Benefits of the PTU Owners' Plans for Development of the PTU.

The cost to the state and the public of approving the 22<sup>nd</sup> POD is that the known underlying hydrocarbons will not be timely delineated and produced and the remainder of the unit area will not be timely explored. Moreover, the 22<sup>nd</sup> POD conditions PTU development on amending the State's existing tax and royalty structure in the Sponsor Group's fiscal contract and construction of a North Slope gas pipeline, which are an inappropriate basis upon which to condition PTU development.

In the short-term, development of the PTU could create additional jobs and in the long-term, development would create additional employment and income to State residents. The State and the public are primarily interested in timely oil and gas production from State leases. Every year that production is delayed costs the State millions of dollars in unrealized interest on production revenue and delays the secondary benefits associated with PTU development. If the PTU Owners developed and began production from the PTU, the State would earn royalty and tax revenues over the long-term life of the field. Royalties, corporate income taxes, property taxes, and severance taxes would benefit the local and state economy, and provide revenue to the State's general, school, and permanent funds. The PTU Owners may reinvest revenues from PTU production in new exploration and development in the State.

Development of the PTU would also increase demand for goods and services supplied by local businesses, retailers, and service providers. An increased property tax base would benefit the residents and communities within the North Slope Borough and along the Trans-Alaska Pipeline corridor. Timely development and production from the PTU will lead to additional development and production from other reservoirs in the unit area and could provide an infrastructure base for exploration, development, and production outside of the unit area.

The Division's May 24, 2002 evaluation of the Expansion Agreement, found that the economic benefits of including the Expansion Acreage in the PTU outweighed the costs because the PTU owners made meaningful commitments to explore and develop the Thomson Sand Reservoir by drilling adequate exploration and development wells by dates certain, and agreed to increased royalty rates for some of the leases to compensate the state for lost opportunities to re-lease the acreage. If the Applicants fail to follow through with those commitments as scheduled, the Expansion Acreage will automatically contract out of the unit, and the PTU Owners must compensate the State for the lost opportunity to receive bonus payments in past lease sales. However, the PTU Owners have requested a one-year deferral of the Development Drilling

PTU Rec\_0012299

Commitments. The 22<sup>nd</sup> POD, unlike the Eighteenth POD and subsequent plans, does not contain activities toward fulfilling the commitments in the Expansion Agreement.

In addition to the Development Drilling Commitments, the Expansion Agreement also contains the PTU Owners commitments to allocate production under an approved participating area by June 15, 2008, for Expansion Areas primarily underlain by the Thomson Sand Reservoir; and by June 15, 2010, for Expansion Areas underlain by Brookian prospects. If the PTU Owners ultimately fail to drill the required development wells, approval of a one-year deferral of the Development Drilling Commitments would delay receipt of any payments to compensate for withholding the Expansion Acreage from leasing, and if they do ultimately develop the PTU, deferral would delay receipt of facility and production related payments.

There are currently 45 state oil and gas leases committed to the PTU Agreement.<sup>8</sup> Most of the PTU leases had a 10-year primary term, except the four most recent leases, which were issued with 7-year primary terms. All but two of the PTU leases are beyond their primary term, but under Article 18 (d) of the PTU Agreement they are all extended for the duration of the unit term.<sup>9</sup>

In addition, the primary terms of seven PTU leases are extended because the Division certified wells located on those leases as capable of production in paying quantities. The PTU leases with certified wells are: ADL 28382, ADL 47556, ADL 47560, ADL 47567, and [ADL 47473] ADL 47573, which were issued on lease form DL-1 revised October 1963; ADL 312862 issued on DMEM-1-79B (Sliding Scale Royalty) revised November 5, 1979; and ADL 343112, issued on DMEM 1-82 (Net Profit Share) revised April 7, 1982. The primary term of these leases are extended under the individual lease agreements and State regulation 11 AAC 83.135, Shut-in Production. [PARAGRAPH 7 OF THE DL-1 LEASE FORM STATES:

EXTENSION BY SHUT-IN PRODUCTION. IF, UPON THE EXPIRATION OF THE PRIMARY TERM OR AT ANY TIME OR TIMES THEREAFTER, THERE IS ON SAID LAND A WELL CAPABLE OF PRODUCING OIL OR GAS IN PAYING QUANTITIES, THIS LEASE SHALL NOT EXPIRE BECAUSE LESSEE FAILS TO PRODUCE THE SAME UNLESS LESSOR GIVES NOTICE TO LESSEE ALLOWING A REASONABLE TIME, WHICH SHALL NOT BE LESS THAN SIXTY DAYS, AFTER SUCH NOTICE TO PLACE THE WELL ON A PRODUCING STATUS, AND LESSEE FAILS TO DO SO; PROVIDED, THAT AFTER SUCH STATUS IS ESTABLISHED SUCH PRODUCTION SHALL CONTINUE ON THE SAID LAND UNLESS AND UNTIL SUSPENSION OF PRODUCTION IS ALLOWED BY LESSOR.

LEASE FORMS DMEM-1-79B (SLIDING SCALE ROYALTY) AND DMEM 1-82 (NET PROFIT SHARE) CONTAIN SIMILAR EXTENSION PROVISION UNDER PARAGRAPH 5

<sup>8</sup> Six of the PTU leases were effective in 1965, nineteen in 1969, three in 1970, two in 1979, four in 1982, one in 1988, eight in 1991, one in 1993, two in 1997, and one each in 2000 and 2002.

<sup>9</sup> PTU Agreement, Article 18 (d) states "Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement."

PTU Rec\_0012300

(D) AND PARAGRAPH 4(D), RESPECTIVELY. HOWEVER, THESE TWO LEASE FORMS SPECIFY THAT THE LESSOR MUST GIVE THE LESSEE AT LEAST SIX MONTHS NOTICE TO PLACE THE WELL ON PRODUCTION. STATE REGULATION 11 AAC 83.135, SHUT-IN PRODUCTION CONTAINS SIMILAR LANGUAGE.]

The lessees have had twenty to thirty years to delineate, develop, and commence production from the hydrocarbon accumulations underlying these leases, which contain wells that are certified as capable of production in paying quantities. If the Division notifies the lessees that they must commence production, and they fail to do so within the time allowed, the leases will no longer be held by shut-in production, although the primary terms may continue to be extended by unitization or other extension provisions in the lease agreements.

If the PTU Agreement terminates and the leases expire, the Division could re-offer the acreage for lease in future lease sales and impose work commitments in the new leases.<sup>10</sup> Re-offering the PTU acreage would also replace older lease forms with a more modern updated lease form. The Division received bonus bids totaling nearly \$146 million when the State originally issued the current PTU leases, and could attract significantly higher bid bonuses today.

Another benefit the state could realize by re-offering the unit acreage is the potential for increased royalty rates. Most of the leases in the core unit area have royalty rates of 12.5%. If the Division were to re-offer the acreage, it could impose higher royalty rates. The PTU Owners agreed to increased royalty rates for some leases in the Expansion Areas, ensuring that the State would receive the benefit of higher royalties on production from those leases without releasing the acreage. The royalty rate increased from 16.66667% to 20% for seven of the leases and from 12.5% to 16.66667% for one lease.

If the PTU is terminated and the Division re-offered the PTU acreage for bid, it might attract new lessees who may bring new ideas and energy as well as new geologic interpretations, engineering, development timelines, and marketing perspectives to develop the area. At this point, the current PTU Owners have had the leases for far beyond their primary term, and their conclusion today is simply that they cannot make enough money to justify development. It is time for the PTU Owners to develop and produce or give new lessees had a chance to develop the known hydrocarbon resources within the PTU.

In summary, the economic costs outweigh the benefits that might be gained by approving the 22<sup>nd</sup> POD. Therefore, the Division's evaluation of the section .303(b)(5) economic criteria does not support approval of the 22<sup>nd</sup> POD.

#### 4. Environmental Costs and Benefits of the PTU Owners' Plans for Development of the PTU.

The PTU Owners do not propose any exploration, delineation, or development operations within the PTU. Therefore, the section 11 AAC 83.303(b)(1) environmental criteria neither supports nor condemns approval of the PTU Owners' plans for development of the PTU.

<sup>10</sup> "The Commissioner may include terms in any oil and gas lease imposing minimum work commitment on the lessee. These terms shall be made public before the sale, and may include appropriate penalty provisions to take effect in the event the lessee does not fulfill the minimum work commitment." AS 38.05.180 (h). PTU Rec\_0012301

## 5. Other Relevant Factors to Protect the Public Interest

The PTU contains wells certified as capable of production in paying quantities. Considering the facts, it is now time to develop and produce the underlying hydrocarbons. If the PTU Owners have been unable to identify a commercial project in nearly 30 years, it is time to terminate the unit and re-offer the acreage to new lessees who will have the opportunity to develop the State's resources in a timely manner.

The Division has given the PTU Owners many opportunities over many years to develop the PTU. It is not in the public interest to grant a state lessee an indefinite extension on development merely because development in their view is not currently profitable enough or is too risky.

The intent of oil and gas leases is to give producers an opportunity to explore, develop, and produce within the primary term of the lease. That intent has been met and exceeded in this case. It is not in the public interest to change leasehold intent by allowing a lessee's parochial interests to supersede the State interest for orderly and reasonably prompt development.

The state's primary interest in oil and gas leases is development of hydrocarbons which yield oil and gas revenue. The state's interest is not met by allowing the producers to delay production until such time as the lessee determines that it is the lessee's optimum time to develop a known resource or the State agrees to compromise its tax and royalty system.

It is not fair to the public or other potential lessees to allow the current PTU Owners to continue to hold the leases, thereby precluding others from the opportunity to develop the resource.

## V. FINDINGS

The PTU Owners' Plans for Development of the PTU fail to meet the criteria in 11 AAC 83.303(a) as follows.

### A. Promote the Conservation of All Natural Resources.

If the Unit Operator proposed any operations under the 22<sup>nd</sup> POD, there would be environmental impacts associated with reservoir development. However, unitized development of the unit area would reduce the disruption of land and fish and wildlife habitat that would occur under individual lease development. This reduction in environmental impacts and preservation of subsistence access would, when taken in isolation, be in the public interest. While unitized operations conserve natural resources when compared to lease-by-lease development, development on a lease basis maybe preferable to no development at all. However, development of the Thomson Sand Reservoir is possible under a new unit agreement.

Additionally, before undertaking any specific operations, the unit operator must submit a unit plan of operations to the Division and other appropriate state and local agencies for review and approval, and the lessees may not commence exploration or development operations until all agencies have granted the required permits. The Division may condition its approval of a unit plan of operations and other permits on performance of mitigation measures in addition to those in the leases, if necessary or appropriate. Compliance with the mitigation measures would

minimize, reduce or completely avoid adverse environmental impacts. Lease-by-lease operations would also require agency approvals, including mitigation measures.

**B. Promote the Prevention of Economic and Physical Waste.**

Exxon submitted geological, geophysical, and engineering data to support its interpretation of the hydrocarbon accumulations underlying the unit area. The available data indicates the PTU encompasses all or part of one or more hydrocarbon accumulations, but the PTU Owners' plans do not provide for delineation and timely development of those resources.

The PTU Owners stated that a gas cycling project was not commercially viable and the 22<sup>nd</sup> POD focuses on evaluating gas sales, but does not commit to produce and sell PTU gas. There is uncertainty regarding continuity of the reservoir in the western unit area, which could be addressed by drilling additional delineation wells. The Unit Operator has not adequately considered alternate development scenarios that incorporate both gas sales and gas cycling. Nor has Exxon evaluated the cumulative benefits of simultaneously developing the multiple hydrocarbon accumulations within the unit area. Timely development and production from the PTU does not preclude PTU gas sales at a later date. Focusing on gas sales at the exclusion of all other development options may result in waste of natural resources.

Gas cycling theoretically allows the recovery of significantly more liquids than would be recovered in a pure gas blow down project. In a gas blow down scenario, oil and gas condensates that remain in the field following gas sales may be largely unrecoverable. In addition, delaying timely production also constitutes waste. The Division and AOGCC must determine whether the proposed development will promote the conservation of oil and gas, but the Unit Operator has yet to apply to AOGCC for conservation orders and to the Division for approval of a depletion plan. The Director has the authority to modify the rate of development to achieve the conservation objectives under the PTU Agreement, and I find that increasing the rate of development in the PTU is necessary and advisable.

**C. Provide for the Protection of All Parties of Interest, Including the State**

A majority of the State's general fund revenue is derived from North Slope oil and gas operations in the form of royalty, net profit shares, production tax, property tax, and corporate income tax. Failure to develop and produce known hydrocarbon accumulations deprives the State of incremental revenue, economic activity and jobs. Should the PTU terminate, the area could be re-leased and unitized again under an acceptable unit plan of development that includes commitments to develop and produce the underlying hydrocarbon accumulations.

Continuing this 30-year record of non-development and delay of an oil and gas lessee's obligations to develop and produce its oil and gas leases makes a mockery of the statutory, regulatory and contractual protections for the State as owner of the oil and gas estate. Therefore, the 22<sup>nd</sup> POD is unacceptable.

PTU Rec\_0012303



## VI. DECISION

The 22<sup>nd</sup> POD fails to meet the requirements of 11 AAC 83.303 and .343 because it does not provide for the reasonable delineation and timely development of the hydrocarbon accumulations in the unit area. Nearly 30 years ago, lessees discovered the Thomson Sand Reservoir underlying the PTU, which to date has not been developed or put into commercial production. The PTU contains significant gas condensate and oil resources. Eighteen wells have been drilled within and around the PTU, but the most recent PTU well was drilled by BPXA nearly [20] 10 years ago. Although some of the leases are more than 40 years old, and several hydrocarbon accumulations within the unit area contain wells that are certified as capable of producing in paying quantities, the Unit Operator has not stated that production from the PTU is economic and has not committed to development and commercial production. To the contrary, the Unit Operator has stated the production from the unit is not economic.

1. The 22<sup>nd</sup> POD makes no commitment to timely develop and produce PTU oil, gas, or gas condensate. The 22<sup>nd</sup> POD is hereby denied.
2. Failure to obtain approval of the unit plan is grounds for default under the PTU Agreement and the State oil and gas regulations. The PTU Owners are hereby notified that effective October 1, 2005, the PTU Agreement is in default.
3. To cure the default, the Unit Operator shall submit an acceptable POD within 90 days, by Thursday, December 29, 2005.
  - a) An acceptable unit plan must contain specific commitments to timely delineate the hydrocarbon accumulations underlying the PTU and develop the unitized substances. The following commitments represent an example of an acceptable PTU plan of development:
    - Development activities for the unit, including plans and deadlines to delineate the Thomson Sand Reservoir, bring the reservoir into commercial production, maximize oil, condensate, and gas recovery, and maintain and enhance production once established; and plans for the exploration or delineation and production of other hydrocarbon accumulations and lands that lie stratigraphically above or below the Thomson Sand Reservoir;
    - The PTU Owners shall sanction a commercial PTU development project by October 1, 2006, and provide the Division with evidence of corporate approval and commitment of project funding.
    - The PTU Operator shall begin commercial production of unitized substances from the PTU by October 1, 2009.
    - Details of the proposed operations to fulfill the 2006 Development Drilling Commitment, including the proposed surface location of the drill pad, bottom-hole location for the well, testing plan, and schedule

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of activities. The consequences of failure to fulfill the 2006 drilling commitment are specified in the Expansion Agreement.

~~4. Failure to submit an acceptable plan of development is grounds for termination of the PTU.~~

[5. THE PTU OPERATOR SHALL COMMENCE DEVELOPMENT OPERATIONS WITHIN THE PTU BY OCTOBER 1, 2007. THE PTU OWNERS SHALL HAVE AN OPPORTUNITY FOR HEARING REGARDING THIS NOTICE TO MODIFY THE RATE OF PTU DEVELOPMENT.]

[6. OIL AND GAS LEASES ADL 28382, ADL 47556, ADL 47560, ADL 47567, ADL 47573, ADL 312862, AND ADL 343112, MUST COMMENCE PRODUCTION IN PAYING QUANTITIES, AS DEFINED IN 11 AAC 83.105, FROM BY OCTOBER 1, 2009. THE DIVISION SHALL ALSO PROVIDE NOTICE TO THE NOTIFICATION LESSEES, EXXON MOBIL CORPORATION, EXXONMOBIL OIL CORPORATION, CHEVRON U.S.A., INC., AND DEVON ENERGY PRODUCTION COMPANY, LP UNDER SEPARATE COVER.]

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this amended decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Thomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to [dnr\\_appeals@dnr.state.ak.us](mailto:dnr_appeals@dnr.state.ak.us). This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31<sup>st</sup> day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

*Director Mark D. Myers signed the original Amended Decision on October 27, 2005*

\_\_\_\_\_  
Mark D. Myers, Director  
Division of Oil and Gas

\_\_\_\_\_  
Date

cc: Thomas E. Irwin, Commissioner DNR  
John Norman, Chair AOGCC  
Richard Todd, Senior Assistant Attorney General

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Attachment 1

Point Thomson Unit Leases

Well No.	Acres	Lease No.	Lease Date	Lease Type	Production	Reserves	Notes	Other
28380	019	87/1965	8/1/1965	Core	2,544.00	West Stearnes SL No. 1 1970	DST#3, 4&5: negligible GCM	
28384	023	87/1965	8/1/1965	Core	1,760.00		GCM with trace DL	
28385	024	87/1965	8/1/1965	Core	837.00			
28381	020	10/1/1965	10/1/1965	Core	2,560.00	Alaska State C-1 1981	DST#4: 50 bbbls O&GCM	
28382	021	10/1/1965	10/1/1965	Core	2,560.00			DST#2: 1.75 MMCFGD, 455 BCPD (37.3 API)
28383	022	10/1/1965	10/1/1965	Core	2,560.00			
47568	012	10/1/1969	10/1/1969	Core	2,560.00			
47570	013	10/1/1969	10/1/1969	Core	2,553.00			
47571	014	10/1/1969	10/1/1969	Core	2,560.00			
47571	015	10/1/1969	10/1/1969	Core	2,560.00	N Stearnes River 1 1982	CONFIDENTIAL	
47572	016	10/1/1969	10/1/1969	Core	2,533.00			
47562	006	10/1/1969	10/1/1969	Core	2,560.00			
47567	011	10/1/1969	10/1/1969	Core	2,560.00	PTU Well No. 2 1978	DST#5&6: 248 BOPD and 124 MCFGD	NONE
47556	025	10/1/1969	10/1/1969	Core	2,560.00	Alaska State A-1 1975	DST#2&3: 2,507 BOPD (23.1 API) and 2.17 MMCFGD	NONE
47559	003	10/1/1969	10/1/1969	Core	2,560.00			
47561	005	10/1/1969	10/1/1969	Core	2,560.00			
47557	001	10/1/1969	10/1/1969	Core	2,523.00			
47558	002	10/1/1969	10/1/1969	Core	2,560.00	PTU Well No. 3 1979	NONE	DST#2: 6.348 MMCFGD and 476 BCPD (38 API)
47563	007	10/1/1969	10/1/1969	Core	2,523.00	PTU Well No. 4 1980	DST#5: 20 bbbls O&GCM	DST#1: 308 BWPD
47564	008	10/1/1969	10/1/1969	Core	2,560.00			
47556	010	10/1/1969	10/1/1969	Core	2,533.00			
47573	025	10/1/1969	10/1/1969	Core	2,544.00	Stearnes R. SL No. 1 1978	CONFIDENTIAL	
47560	004	4/1/1970	4/1/1970	Core	640.00	PTU Well No. 1 1977	DST#3: 2.25 MMCFGD and 132 bbbls (44.4 API)	CONFIDENTIAL
50303	017	4/1/1970	4/1/1970	Core	640.00			DST#1: 2.283 BOPD (18.4 API) and 13.307 MMCFGD
51667	018	4/1/1970	4/1/1970	Core	1,243.00			DST#2: 3.86 MMCFGD and 170 bbbls (45.4 API)
312862	027	2/1/1980	2/1/1980	Core	5,648.66	Alaska State F-1 1982	DST#5: 73 MCFGD and 41 BCPD (35.50 API) DST#5C: 141 MCFGD and 145 BOPD (22.1 API)	DST#1: 3.02 MMCFGD and 152 BCPD (35.3 API)
312866	028	2/1/1980	2/1/1980	Core	4,935.47	Alaska State D-1 2/16/1982	NONE	DST#2: 4.6 MMCFGD and 286 BCPD
343110	030	8/1/1982	8/1/1982	Core	1,920.00			NONE
343111	031	8/1/1982	8/1/1982	Core	2,400.00			
343112	032	8/1/1982	8/1/1982	Core	3,446.00	Sourdough No. 2 1984	CONFIDENTIAL	CONFIDENTIAL
343109	029	8/1/1982	8/1/1982	Core	1,970.16	Sourdough No. 3 1986	CONFIDENTIAL	CONFIDENTIAL
372256	038	12/1/1988	12/1/1988	3	1,412.00	Alaska State G-2 1983		
375054	043	4/1/1991	4/1/1991	4	1,052.00			
377015	033	8/1/1991	8/1/1991	1	3,554.30	Challenge Is. No. 1 1981	NONE	BLOWOUT ... OIL below 12,969'
389727	045	8/1/1991	8/1/1991	6	2,143.39			
377016	034	8/1/1991	8/1/1991	1	2,779.16			
389728	046	8/1/1991	8/1/1991	1	2,952.62			
377017	035	8/1/1991	8/1/1991	1	5,896.18			
377020	037	8/1/1991	8/1/1991	2	1,809.74			
389730	047	8/1/1991	8/1/1991	6	3,694.31			
382101	042	7/1/1993	7/1/1993	5	1,280.00			
389425	039	1/1/1998	1/1/1998	6	1,162.08	Alaska Island No. 1 1982	NONE	2.8 MMCFGD and 185 BCPD (36 API)
389426	040	1/1/1998	1/1/1998	6	821.74			
389716	036	7/1/2001	7/1/2001	7	1,473.92			
390310	048	4/1/2003	4/1/2003	Core	15.80			
45					106,200.55			

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA  
THIRD JUDICIAL DISTRICT AT ANCHORAGE

ExxonMobil Corporation, Operator	)	
Of the Point Thomson Unit; BP	)	
Exploration (Alaska) Inc.; Chevron U.S.A.	)	
Inc; ConocoPhillips Alaska, Inc.,	)	
	)	<b>Case No.: 3AN-06-13751 CI</b>
Appellants,	)	(Consolidated Appeals)
	)	Case No. 3AN-06-13760 CI
vs.	)	Case No. 3AN-06-13773 CI
	)	Case No. 3AN-06-13799 CI
State of Alaska,	)	Case No. 3AN-07-04634 CI
Department of Natural Resources,	)	Case No. 3AN-07-04620 CI
	)	Case No. 3AN-07-04621 CI
Appellee.	)	

**BRIEF OF APPELLEE**

APPEAL FROM THE DEPARTMENT OF NATURAL RESOURCES

FINAL DECISION OF THE COMMISSIONER  
DATED NOVEMBER 27, 2006

&

COMMISSIONER'S DECISION ON RECONSIDERATION  
DATED DECEMBER 27, 2006

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Lessees' record of broken development promises, refusal to invest in needed exploration wells, refusal to commit to production of known commercial hydrocarbon deposits, and insistence on a gas blow down project, which risked the loss of millions of barrels of gas liquids and oil and indefinitely delayed PTU development, left the Director with no choice but to default the Unit:

The premise that the PTU can only be developed if a North Slope gas pipeline is built is inappropriate. In addition to dry gas, the unit contains 100s of millions of barrels of hydrocarbon liquids. These hydrocarbon liquids could be produced using mostly existing oil pipelines without construction of a North Slope gas pipeline. Therefore, potential PTU development is not, in fact, limited to dry gas production. In addition, the PTU Agreement, which requires timely exploration, delineation, development, and production of unitized substances, does not guarantee the lessees' commercial success or provide for indefinite extension of the leases. [R. 628]

The Director expressly rejected any linkage between the then pending SGDA negotiations and Lessees' PTU development obligations.

The Sponsor Group consists of only three of the Major PTU Owners: Exxon, BPXA, and CPAI, and does not officially represent the PTU lessees. The State is also negotiating with two other applicants that submitted proposals to build a North Slope gas pipeline. Depending on the progress of the negotiations, it is unlikely that a North Slope gas pipeline will be in operation before 2012, and the Sponsor Group has not yet made a public commitment to ever build a North Slope gas pipeline. However, regardless of the status of those negotiations, the PTU Owners have an obligation to diligently explore, delineate, and develop the hydrocarbon resources underlying the unit area.

The 22nd POD states that field activities associated with development drilling should begin three to three and one-half years before field startup, but it does not indicate when, if ever, an open season might occur or when, if ever, Exxon anticipates the commencement of development or production. At this point in time, the PTU Owners do not control if or when a North Slope gas pipeline will ever be operational. Reliance on

## ARGUMENT

### SUMMARY OF ARGUMENT

This appeal is about a calculated effort by Lessees to evade their obligations under the PTUA by warehousing the hydrocarbons in the PTU. The Commissioner properly rejected both the 22nd POD and the proposed cure to that POD because the POD did not commit to delineate the hydrocarbons or to produce them and because the POD was unacceptable under the relevant regulations. He properly defaulted the PTU for Lessees' failure to submit an acceptable POD. A finding of default was particularly appropriate given Lessees' statement that they might never produce from the PTU. Further, applicable regulations mandate the administrative adjudication of default, regardless of the presence of certified wells capable of production. Finally, the finding of default, in combination with the history of the PTU, justified the Commissioner's imposition of the discretionary remedy of administrative termination.

Administrative termination of the PTU by the Commissioner was appropriate because there were no wells capable of actual production in the Unit. Lessees have been afforded all the process they are due both in the default determination and with respect to termination of the PTU. Further, they have had ample opportunity to cure their default and to comply with the reasonable requirements for an acceptable POD. Their steadfast refusal to submit an acceptable POD justifies the remedy of administrative termination of the Unit.

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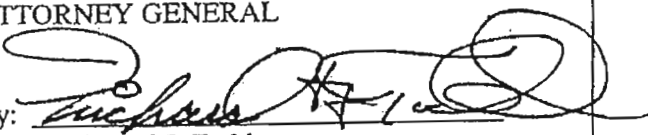
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BRIEF OF APPELLEE  
*Exxon Mobil Corp., et al. v. State*; #3AN-06-1375 CI

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February 8, 2008

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VIA HAND-DELIVERY

Thomas E. Irwin  
Commissioner  
Department of Natural Resources  
550 W. 7<sup>th</sup> Avenue, Suite 1400  
Anchorage, Alaska 99501

Re: Response to Letter of January 28, 2008

Dear Commissioner Irwin:

Thank you for your January 28, 2008 letter regarding the procedures on remand. As we stated in our January 18, 2008 letter, the WIOs intend to propose that the Point Thomson Unit be brought into production at an early date consistent with Sections 10 and 21 of the Unit Agreement. Unfortunately, the WIOs have no indication from the Alaska Department of Natural Resources of the specific type and rate of development activity that DNR presently considers necessary to satisfy the development obligations under the PTUA. Due process, the terms of Judge Gleason's remand order, and the terms of Section 21 of the Unit Agreement require DNR to give notice of the specific development activities that DNR believes are necessary and the justification for that belief.

In our January 18, 2008 letter, we asked for clear written notice of the development activity DNR currently believes is necessary, appropriate and consistent with the Unit Agreement and applicable regulations. Your January 28, 2008 letter responded to that request with the instruction that the WIOs may not rely upon the prior statements of the Director of the Division of Oil & Gas regarding an acceptable course of development because such a reliance would be "unreasonable." This instruction seems inconsistent with your contemporaneous direction to "consider the record that was developed before Judge Gleason" in submitting a new development proposal. After all, the Director's decision is part of that record and constitutes perhaps the most specific statement DNR has provided of its views regarding necessary Unit development.

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More problematic, however, is that in the place of the Director's statements, which described specific development activity and timelines, your letter says only that "both AOGCC and DNR have requested the PTU Lessees to drill sufficient wells to fully delineate all of the PTU reservoirs[.]" and that "the Lessees [should] commit to full and timely development of all PTU reservoirs, including gas, gas condensate, and oil." Because reasonable people can differ over the nature and timing of development activity that would meet those very vague requirements, the WIOs are now left with no meaningful notice from DNR setting out its view of a necessary and proper future course for development of the Unit or the justification for that view.

This procedure fails to provide the WIOs with fair and adequate notice of the standard to which their proposed remedy might be held, and the practical difficulty, if not impossibility, of correctly speculating about the nature and timing of development activity that DNR believes it may lawfully impose. Moreover, this procedure is inconsistent with the Superior Court's instruction to DNR to consider the import of Section 21 on the remedy that would be appropriate "upon DNR's rejection of the proposed 22<sup>nd</sup> Plan of Development." In rejecting prior proposed plans of development, DNR has made it very clear that it is requiring an increase in the rate of prospecting and development in the Unit. As the Director found his Amended Decision, "The Director has the authority to modify the rate of development to achieve the conservation objectives under the PTU Agreement, and I find that increasing the rate of development in the PTU is necessary and advisable."<sup>1</sup> DNR, however, has never provided the notice required by Section 21.

The WIOs are entitled to fair and adequate notice of the specific nature and timing of the development activity DNR now finds necessary and proper under Section 21 and the reasons for that belief, and a reasonable time (in any event not less than the thirty days Section 21 requires) to evaluate those requirements so that the WIOs can respond either by accepting DNR's requirements or by presenting evidence and argument with respect to them. While the WIOs will certainly discuss this issue in the briefing that you have requested, we thought it only fair to place the DNR on notice that we believe DNR has embarked on a path that is inconsistent with the Superior Court's order and the Unit Agreement.

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<sup>1</sup> Amended Decision, Finding B ("Promote the Prevention of Economic and Physical Waste"), at page 21.



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The WIOs do not waive any of the requests made in their January 18, 2008 letter. Further, the WIOs will submit a separate letter addressing other procedural matters related to the current March 3, 2008 hearing.

Very Truly Yours,

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By:   
Douglas J. Serdahely

On behalf of all Appellants

DJS/mw

cc: Kevin Banks, Acting Director, Division of Oil & Gas  
Nan Thompson, Division of Oil & Gas  
Richard Todd, Department of Law  
Mark Ashburn, Ashburn & Mason, PC

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Exc. 000883

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES OFFICE OF THE COMMISSIONER

*Out going*

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February 14, 2008

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Dear Mr. Serdahely, Mr. Sneed, Mr. Ellis and Ms. Orlansky:

You sent to me two letters dated February 8, 2008. The first letter states your view that the hearing should be conducted under Section 21 of the PTUA. This Proceeding is not an Article 21 proceeding. Rather, it is a hearing to determine the appropriate remedy for your failure to submit an acceptable plan of development for the Point Thomson Unit. Judge Gleason directed the agency "to consider the import of Section 21, as amended in 1985, in determining the appropriate remedy," and DNR will indeed consider the relevancy (if any) of Article 21 during these proceedings. If you assert that this hearing should be an Article 21 proceeding, submit a brief citing the relevant legal authorities and explaining your reasoning to my office by February 22.

Your second letter dated February 8, 2008 raises procedural issues. Several of the questions asked are based on a fundamental misunderstanding of the nature of this proceeding. The hearing set for March 3, 2008 is an administrative hearing to afford you the opportunity to present evidence and argument about other remedies that you believe are appropriate in light of the rejection of the 22<sup>nd</sup> proposed Plan of Development for the Point Thomson Unit. Commissioner Menge decided that unit termination was the appropriate remedy. You argued on appeal to Judge Gleason that you were denied due process because you did not have reasonable notice that the unit would be terminated if the 22<sup>nd</sup> POD was rejected. Based on your claim of inadequate notice, Judge Gleason remanded the case to DNR to give you an opportunity to be heard on the appropriate remedy.

As DNR previously stated, one of the remedies DNR is considering is unit termination. You have the opportunity to address whether unit termination is an appropriate remedy and to present alternative remedies in your February 19 filings and at the March 3 hearing. In making your presentations, you should explain why you believe your proposals are consistent with the applicable statutes, regulations and agreements and are reasonable in light of the history of this unit. DNR is the decision-maker in this remand hearing, not a party. In making its decision on what remedy is both appropriate under the facts and consistent with DNR's constitutional and statutory

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Mr. Serdahely, Mr. Sneed, Mr. Ellis and Ms. Orlansky  
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responsibilities, DNR will rely on the unit records, the entirety of which you have designated as part of the record on appeal to Judge Gleason, and will carefully and thoroughly evaluate the evidence and argument you submit on February 19 and at the hearing.

You requested the opportunity to file a post-hearing brief. At the conclusion of the hearing, I will ask which issues you believe need to be briefed and will then decide whether or not a post-hearing brief is appropriate.

In order to insure that the hearing runs smoothly, I have asked the hearing officer to convene a pre-hearing conference to address procedural issues like marking of exhibits, order of presentation and hours for the hearing. You will be contacted after the February 19 filings to arrange a time and place for the pre-hearing conference.

Finally, in order to accommodate the number of expected attendees at the hearing, we have arranged to hold it in the AOGCC's hearing room. It will begin at 9:00 a.m. on March 3.

Sincerely,



Thomas E. Irwin  
Commissioner

cc: Kevin Banks, Acting Director, DNR Division of Oil & Gas  
Nan Thompson, DNR Division of Oil & Gas  
Richard Todd, Department of Law  
Mark Ashburn, Ashburn & Mason, PC  
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