

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

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January 27, 2009

Appeal by Exxon Mobil Corporation,
BP Exploration (Alaska) Inc., Chevron USA,
Inc., ConocoPhillips Alaska, Inc. and Exxon
Mobil Oil Corporation, Working Interest
Owners, of the Notice of the Director,
Division of Oil and Gas, dated August 4, 2008,
entitled Lease Expiration Due To Elimination
From Unit for Oil and Gas Leases ADL 28380
et al.

CONDITIONAL INTERIM DECISION

This is a conditional interim decision in appeals from the August 4, 2008, decision of the DNR Director of Oil and Gas that 31 of the leases included in the former Point Thomson Unit had expired. BP Exploration (Alaska) Inc., Chevron USA, Inc., ConocoPhillips Alaska, Inc., and ExxonMobil Corporation appealed from that decision. The initial phase of the evidentiary hearing was held on January 12 through 16, 2009, and the hearing is continued to February 12, 2009.

I am issuing this conditional interim decision because, in part, Appellants offered testimony that their development plans to drill a well during this winter season could still go forward if DNR provided them with an ice road permit before the end of this month and authorized drilling activities on the leases. For this reason, I have decided to issue this decision.

At the initial phase of the hearing, Appellants offered testimony and evidence regarding their plans for development of certain leases in the former Point Thomson Unit, referred to by Appellants as the "Point Thomson Project." Appellants have testified that this project provided for the drilling and producing from wells by 2014. Appellants have specifically testified that they are unconditionally committed to the initiation and continuation of drilling during this 2008 and 2009 winter season, including drilling a well out of the conductors with a rig capable of drilling through the Thomson Sands on that lease, and completing the drilling of two wells, both penetrating the Thomson Sands reservoir, by 2010. Appellants testified that in furtherance of this commitment, they have: (1) mobilized equipment and materials to the North Slope to support the operations; (2) retained subcontractors to support this operation; (3) modified a drill rig to make it suitable for the high pressure Thomson Sands reservoir; and (4) applied for and pursued all necessary permits. Given this testimony, I find that it is in the public interest to authorize Appellants to drill these two wells. If Appellants provide the documents listed below, the record will be adequate to support reinstatement of the two leases and issuance of permits to authorize drilling of these two wells.

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

I am not, however, ruling on whether any of the remaining 29 leases are engaged in drilling operations, or are extended by another lease provision, because the record is incomplete and there are many outstanding questions that Appellants need to address.

Nonetheless, assuming Appellants can provide the documentation listed below, I find that Appellants have demonstrated that ADL 47559 and ADL 47571 have been extended by the drilling operations savings clause because they have: (1) testified that they are unconditionally committed to the initiation of drilling during this winter season, including drilling a well out of the conductors with a rig capable of drilling through the Thomson Sands on that lease, and completing the drilling of two wells on these two leases, both penetrating the Thomson Sands reservoir, by 2010; (2) mobilized equipment and materials to the North Slope to support these operations and awarded subcontracts; and (3) unconditionally committed to bring those two wells on the two leases into production by 2014.

Based on the testimony and evidence presented at the hearing, I have decided to:

- (1) direct my staff to issue the ice road permit as soon as possible so that the rig can be mobilized to the drill pad this winter;
- (2) direct my staff to process all permits necessary for drilling these two wells that are pending before DNR;
- (3) inform local, state, and federal agencies that Appellants are authorized to drill these two wells on the two leases; and
- (4) reinstate ADL 47559 and ADL 47571 on the following conditions:
 - a. Appellants must abide by their unconditional commitments they made on the record including: (1) initiate drilling during this winter season, including drilling a well out of the conductors with a rig capable of drilling through the Thomson Sands on that lease; (2) completing these two wells on these two leases, both penetrating the Thomson Sands reservoir, by 2010; (3) continue to diligently move towards production by constructing the necessary facilities for processing and transporting hydrocarbons from these leases to market; and (4) commence sustained commercial production and transportation of hydrocarbons from these two wells on these two leases to market by 2014;
 - b. Appellants must obtain AOGCC and DNR approval for the precise location and bottom hole of each well;
 - c. Appellants must obtain DNR's approval for its Plan of Operations for the drilling of these two wells;
 - d. Appellants must diligently pursue all necessary permits, including working in good faith with all permitting agencies; and

- e. Appellants must provide, within two weeks, all of the answers and documentation I requested during the initial phase of the hearing regarding Appellants' drilling plans for these two wells, including the precise well locations, drilling dates and production dates for each well. Appellants must also include a drill rig contract for each well, unconditional AFEs for each well signed by all parties, an AFE for the production infrastructure, and affidavits from each Appellant stating its willingness to pay its share of the costs for each well and for the production infrastructure.¹

Additionally, unitization of these leases will likely be appropriate in order to properly conserve natural resources. I will address unitization issues in a final decision once the record is complete.

This conditional interim decision is intended to effect more expeditious production of state oil and gas resources. However, I remind Appellants that, under the terms of these two leases, the failure to diligently pursue drilling operations in good faith for the purpose of production will result in the automatic termination of these leases.

This interim decision will be followed by a final agency decision in the lease appeals once the record is complete, setting out my findings, rationale, and decision in detail. The time for appeal to the superior court will run from the date of issuance of the final agency decision.

In summary, I am issuing this conditional interim decision because Appellants have offered testimony and evidence that they are engaged in "drilling operations" for the purpose of diligently working in good faith to bring ADL 47559 and ADL 47571 into production, and that they will proceed with the project this winter season. The decision is conditional upon Appellants abiding by the conditions set forth above. I still need to review contracts and other documents that I have requested in order to make a final agency decision.



Thomas E. Irwin
Commissioner

Jan. 27, 2009

Date

¹ Compliance with this condition does not relieve Appellants from providing all of the other answers and documentation requested during the initial phase of the hearing.