12/1/08 JOINT HEARING: DNR PERMITTING ISSUES

Joint House Judiciary and Resources Committee Hearing
DNR Permitting Issues
Monday, December 01, 2008

House Judiciary Members confirmed: Rep. Ramras, Chair; Rep. Dahlstrom, Vice-Chair; Rep. Coghill; Rep. Lynn; Rep. Samuels; Rep. Gruenberg (via teleconference)

House Resources Members confirmed: Co-chairs Rep. Johnson and Rep. Gatto; Rep. Seaton; Rep. Wilson; Rep. Kawasaki (via teleconference)

Tentative format for invited testimony:

Mr. Danny Davis, Escopeta Oil Co., Ltd.

Mr. Bruce Webb, Aurora Gas

Mr. Craig Haymes, ExxonMobil Corporation

Alaska Department of Natural Resources:
Commissioner Tom Irwin
Deputy Commissioner Marty Rutherford
Director Kevin Banks, Oil & Gas Division

Debra Higgins

From: Bruce D Webb [bwebb@aurorapower.com]

Sent: Thursday, December 04, 2008 10:39 AM

To: Rep. Jay Ramras; Rep. Craig Johnson; Rep. Ralph Samuels; Rep. Nancy Dahlstrom; Rep. Paul Seaton; Rep. Bob Lynn; Rep. John Coghill; Rep. Carl Gatto; Rep. Max Gruenberg; Rep. Peggy Wilson

Cc: 'Escopeta Oil'; Vlado@Pacenergy. Com; 'Joe Kilchrist'; 'Darren Katic'; Marino, Anthony C.; nickstepo@gmail.com; stevepna@hotmail.com; resources@akrdc.org; jbrune@akrdc.org; cportman@akrdc.org; dcrockett@akrdc.org; gsmith@alaskaalliance.com; info@alaskaalliance.com; tim.bradner@alaskajournal.com; melissa.campbell@alaskajournal.com; pdougherty@adn.com; scockerham@adn.com; jwright@adn.com; dhulen@adn.com; mzencey@adn.com; fgerjevic@adn.com; rshinohara@adn.com; bwhite@adn.com; wloy@adn.com; 'Bluemink, Elizabeth'; rmauer@adn.com; ddonkel@cfl.rr.com; Rick in Fairbanks

Subject: FINALLY, the DENIAL of the Corsair Expansion

Attachments: DENIAL Corsair Appeal of unit expansion 12.03.08.pdf

Dear Representatives,

Apparently your hearing had little to effect on the Cook Inlet's ability to get a jack-up drilling rig, increase production, or supply hundreds of local jobs.

Rep. Ramrus asked Irwin "what if you had to make a decision?" Well he did. The same old story.... "NO!"

Attached is the DENIAL of the Corsair Unit Expansion Appeal that had sat on his desk for six months. If he (they) knew the answer was going to be no, why did they wait so long?

IT IS A SAD STATE OF AFFAIRS WHEN APPOINTED STATE OFFICIALS IGNOR THE VOICES OF THE PEOPLE OF ALASKA AND THEIR ELECTED REPRESENTATIVES.

Instead of just sitting there rolling their eyes and looking at the floor, they might as well have just spat in your face.

I am disgusted with this administration. It is time for a house cleaning. Seriously, as a life-long, loyal Alaskan, this makes me sick.

I hope Pacific Energy takes this to the Superior Court where they can get fair, unbiased treatment.

CORSAIR UNIT AGREEMENT

State of Alaska
Department of Natural Resources
Commissioner's Findings and Decision
Corsair Unit Expansion Application
Appeal of Director's Decision

DECEMBER 3, 2008

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I. INTRODUCTION

Pacific Energy Resources Limited (PERL), the Corsair Unit (Unit) operator, filed an application for the First Expansion of the Corsair Unit (Application) with the State of Alaska Department of Natural Resources (DNR), Division of Oil and Gas (Division), on March 26, 2008. On April 30, 2008, the Division Director denied the Application (Decision). On May 16, 2008, PERL appealed the Decision to the DNR Commissioner.

PERL asserts, among other things, that approval of the Application best serves the State's and public's interest, as well as PERL's, by preserving its ability to explore and develop the entire Unit structure as the sole working interest owner, and that "fragmentation of the Corsair structure into unitized and non-unitized parcels with different working interest owners would ultimately result in a waste of both economical and physical resources." PERL also maintains that approval of the Application and the proposed Expansion Plan of Exploration (POE) would result in the leases being drilled sooner than on a lease-by-lease basis. Finally, PERL asserts throughout its appeal that without the expansion leases, delivering a jack-up drilling rig to Cook Inlet, as required under the Unit's Initial POE, as amended, would be uneconomic.

II. SUMMARY OF DECISION

I affirm the Decision denying the Application as not in the public interest because it does not promote 1) the conservation of natural resources and 2) the prevention of economic and physical waste any more than non-unitized development of the individual leases, and 3) does not provide for the protection of all parties of interest, including the State. 11 AAC 83.303.

PERL submitted the Application just 42 days before the leases would expire, proposing expansion of the Unit as an oil play and delays to the existing work commitments. PERL states that it had not fully assessed the economic feasibility of the work commitments it agreed to when it assumed and accepted designation as Successor Unit Operator. The State's interest is not served by the unitization of soon-to-expire acreage, especially when an operator has not fulfilled its existing POE work commitments. DNR must be able to rely on commitments made by unit operators. When it assumed Unit operatorship, PERL committed to submit a jack-up rig contract to DNR by December 31, 2007, and bring a jack-up rig to Cook Inlet to drill for gas in the Unit by December 31, 2008. PERL defaulted on its rig contract deadline commitment and DNR has already extended the drilling deadline to June 30, 2009. Now, as part of the Application, PERL seeks to further delay well drilling in the Unit until December 31, 2009.

III. BACKGROUND

The Unit, formed effective January 31, 2007, is located in the center of upper Cook Inlet, approximately 12 miles southwest of North Cook Inlet Field. The existing Unit area covers approximately 10,185 acres including four State of Alaska oil and gas leases. The Unit's Initial five-year POE required Forest Oil Corporation (Forest), the original Unit

Operator, to, among other things, 1) provide a drilling rig commitment by December 31, 2007, 2) drill an exploration well by December 31, 2008, 3) seek participating area approval before January 31, 2010, 4) consider drilling a second exploration well before January 31, 2011, and 5) seek plan of operation approvals for pipeline and facilities construction, before January 31, 2012, to permit commercial gas production from the Unit.

On August 27, 2007, PERL acquired 100 percent of the working interest in the Unit leases from Forest. On November 6, 2007, the Division approved the assignment of Forest's lease interests PERL. On November 14, 2007, Forest resigned and designated PERL as Successor Unit Operator. On November 26, 2007, PERL "accept[ed] and assume[d] all rights and obligations as Successor Unit Operator . . . ." The Division approved PERL as Unit Operator on December 19, 2007.

On December 4, 2007, before the Division approved PERL as Unit Operator, PERL requested that the Division delay all the Initial POE commitments by one year, so that, for example, the drilling rig and initial exploration well commitments would be delayed to December 31, 2008, and December 31, 2009, respectively. These initial requests to delay were denied because PERL was aware of these obligations when they acquired this asset and committed to DNR that they would be able to meet the existing deadlines when they asked the Division to approve the assignments and accepted Successor Operatorship of the Corsair Unit.

PERL failed to fulfill the December 31, 2007, commitment to provide evidence satisfactory to the Commissioner of a rig contract that would enable PERL to meet the December 31, 2008, well drilling requirement set out in the Initial POE. Thus, on December 31, 2007, the Director defaulted the Unit and demanded, as a cure, that PERL provide evidence of a rig contract by April 1, 2008.

On January 4, 2008, PERL again requested that the Division delay the initial well drilling commitment by one year—until December 31, 2009.

On January 29, 2008, the Division extended the well drilling commitment by six months—until June 30, 2009, subject to PERL curing the drilling rig commitment by April 1, 2008, as set out in its December 31, 2007, default decision. PERL submitted a rig contract on March 14, 2008, thereby curing the default.

PERL filed the Application with DNR on March 26, 2008. It proposed an expansion of the Unit to include four additional State oil and gas leases, ADLs 389513, 389514, 389507, due to expire on April 30, 2008, and 389923 due to expire on December 31, 2008. The proposed expansion would add approximately 16,546 acres to the Unit. PERL holds 100 percent of the working interest in the existing Unit leases, as well as the leases proposed for expansion. The Application included a revised Plan of Exploration (Expansion POE), Exhibit G to the Corsair Unit Agreement (UA). In the Expansion POE

PERL proposed to drill three wells by December 31, 2009, and retain the other work commitments as set out in the Initial POE.

On April 1, 2008, the Division approved a rig contract submitted by PERL on the condition that, among other things, it provide a copy of a signed heavy lift vessel contract to the Division by July 31, 2008.

On April 30, 2008, the Division issued the Decision, which denied the expansion based on the following points.

1. No drilling had occurred within the primary term of the proposed expansion leases.

2. PERL will neither fulfill the Initial POE drilling work commitment by December 31, 2008, nor has it yet fulfilled the June 30, 2009, drilling commitment.

3. Unitization is meant to facilitate efficient reservoir production, not to enable warehousing of acreage. The proposed Unit expansion will not guarantee delineation and production of the identified oil prospect sooner than lease-by-lease development.

4. Unitization is not necessary to promote the development of a single resource by multiple working interest owners, because there is only one working interest owner, PERL, in the Unit and the proposed expanded Unit.

5. The Expansion POE would extend the Initial POE, as amended, June 30, 2009, drilling date until December 31, 2009. This is an unacceptable delay in drilling the Unit's prospects.

The Appeal, submitted on May 16, 2008, included supplemental confidential geophysical, geological, and engineering data. PERL did not request an extension for the submission of additional material and it did not request a stay of the Decision under 11 AAC 02.030(f). Despite the fact that it had submitted an acceptable drilling rig contract on March 14, 2008, which cured the Unit default, PERL now asserts throughout the Appeal that it would be uneconomic to deliver a jack-up rig to Cook Inlet and drill an exploration well in the Unit without the expansion leases.

On July 8, 2008, PERL requested, among other things, that the Division delay the July 31, 2008, heavy lift vessel contract deadline for sixty days.

On July 22, 2008, PERL clarified that it was seeking the heavy lift vessel contract deadline delay for the "*existing*" Unit leases.

On July 30, 2008, the Division approved, among other things, PERL's request to delay the heavy lift vessel contract deadline by sixty days. The Division approved the request because the delay would not, in its estimation, delay the June 30, 2009, drilling date deadline set out in the Initial POE, as amended. The Division also opined that it "interprets PERL's vessel contract extension request as a repudiation of its appeal argument that delivering a rig is uneconomic with the expansion leases." The Division observed that PERL provided no evidence for its assertion that the rig delivery would be uneconomic without the expansion leases.

On September 24, 2008, PERL requested a further delay, until October 31, 2008, of the heavy lift vessel contract deadline. The Division again approved extension of the heavy lift vessel contract deadline, until October 31, 2008.

On October 31, 2008, PERL submitted a heavy lift vessel contract. The Division did not accept the contract as a fulfillment of the work commitment and effective December 1, 2008, placed the Corsair Unit in default with a default cure period of ninety days.

IV. DISCUSSION of DECISION CRITERIA

The Appeal's title indicates that PERL seeks to both appeal and request reconsideration of the Decision. But, the text of the submittal refers to an appeal. Under 11 AAC 02.010(g) a person may not both appeal and request reconsideration of a decision. 11 AAC 02.010(e) applies here because the Commissioner did not sign or cosign the Decision. In a June 16, 2008, letter, DNR acknowledged acceptance of the Appeal.

AS 38.05.020(b)(4), AS 38.05.180(p), and Article 13.1 of the UA give the DNR Commissioner broad authority to consider an oil and gas unit expansion. See Exxon Corporation v. State of Alaska, 40 P.3d 786 (Alaska 2001).

I review unit expansion applications under the criteria set out in 11 AAC 83.303 (a) and (b). As set out below, I affirm the Decision denying the Application as not in the public interest because it does not promote 1) the conservation of natural resources and 2) the prevention of economic and physical waste any more than non-unitized development of the individual leases, and 3) does not provide for the protection of all parties of interest, including the State. My discussion of the subsection (b) criteria, as they apply to the Appeal, is set out directly below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits of the Expansion

Unitization is not required to drill wells, produce hydrocarbons and build infrastructure. Lease terms may be extended by production without unitization. Unitization may lessen environmental risks by reducing redundant facilities because it often unites multiple owners of a common resource and promotes the sharing of the cost and ownership of drill

rigs, facilities, and infrastructure, thereby reducing the environmental impact of redundant facilities.

PERL has proposed expanding the Unit, which was formed as a gas prospect, to include an oil prospect and to shift the primary target from gas to oil. In this case, PERL holds 100 percent of the working interest in the prospect that it now describes as an oil prospect underlying the Unit and the four leases proposed for expansion.

Expansion would probably not create an additional environmental risk because PERL would be the sole Operator on the prospect. Without approval, the proposed expansion leases expire and another lessee could obtain the acreage at the next lease sale. This would result in multiple owners of the oil prospect described by PERL. The cost of a drill rig would most likely be shared by parties interested in using it; unitization is not required for multiple owners to contract to share costs for exploring acreage. It is highly unlikely that lessees would bring multiple rigs to Cook Inlet because the redundant expense would not be in their financial interest.

2. The Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities of the Corsair Unit Area

Corsair Expansion Prospect

The January 31, 2007 approval of the formation of the Corsair Unit provides an in depth discussion of the Corsair prospect as does the Decision. Both decisions reference prior exploration activities in the area, mostly focused on the work by ARCO which referred to the greater geologic trend called Sunfish of which the Corsair prospect is a part. In considering the Corsair Unit Expansion application, DNR summarized the Corsair Unit prospects:

> The Corsair Unit as currently configured contains two types of hydrocarbon prospects. The primary target consists of Sterling and Beluga gas sands; a secondary target is the deeper Tyonek oil sands. In the acreage under consideration for expansion (both northern and southern leases) only a single hydrocarbon target is viable, the Tyonek oil sands. Maps provided by PERL show the expansion acreage underlain by oil-bearing sandstones of the Tyonek Formation. The gas cap located in the crestal region of the anticline is absent in both the northern and southern expansion acreage.

The existing unit overlies the crest of a geologic structure closed at all levels of economic interest. This is commonly referred to as the SRS structure. The expansion area is restricted to the SRS structure and adds acreage structurally low to the existing unit. A saddle exists between this structure and the North Cook Inlet structure to the northeast. Five wells have been drilled on the SRS structure by various operators from 1962 to 1993. These wells had numerous oil and gas shows throughout the Kenai Group as well as drill stem tests which recovered both oil and gas.

Under 11 AAC 83.306 (4) the applicant must provide the following in order for the division to deem an application complete:

(4) all pertinent geological, geophysical, engineering, and well data, and interpretations of those data, directly supporting the application;

The commissioner must consider the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization, 11 AAC 83.303 9b) (2). The Division deemed the Application complete effective March 26, 2008.

Under 11 AAC 83.395. Definitions:

(5) "potential hydrocarbon accumulation" means any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas;

The geological and geophysical data provided with the application, although complete, do not support the structural mapping on which the extent of the potential hydrocarbon accumulation is based. Therefore the proposed hydrocarbon accumulation has not been reasonably defined or delineated and does not justify expansion of the Corsair Unit.

3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit

The Initial POE, as amended on January 29, April 1, and July 30, 2008, requires PERL to, among other things, submit a heavy lift vessel contract by September 29, 2008, deliver a jack-up rig, and drill an exploration well in Cook Inlet by June 30, 2009. This well drilling date represents a Division-approved six-month extension to the Initial POE, which required drilling by December 31, 2008. Under the Expansion POE, PERL sought a further six-month delay to the well drilling commitment until December 31, 2009. In its Appeal, PERL asserts that it is not requesting an extension of the June 30, 2009, date for the initial exploration well, but the language of the Expansion POE belies that assertion—"[b]y December 31, 2009, the Unit Operator will drill three (3) Exploration wells . . . ."

The State approved the Unit because Forest committed to deliver a jack-up drill rig to Cook Inlet and drill a well on a natural gas prospect in less than two years from the effective date of unitization. The potential benefits the State would reap from the delivery of a jack-up to Cook Inlet outweighed the risk that the operator would fail to develop the leases because of known geologic and economic risks. The Initial POE committed Forest and PERL, when it "accept[ed] and assume[d] all rights and obligations as Successor Unit Operator . . . ." on November 26, 2007, to drill by December 31, 2008, or the Unit would automatically terminate and all the leases would return to the State. Thus, the acreage, upon Unit termination, would immediately return

to the State effective January 1, 2009, well within the required time for the acreage to be listed as available in the May 2009 Cook Inlet Sale (May 2009 Sale).

The expiration date of three of the four Unit leases was April 30, 2007. If the leases had expired, rather than being extended by unitization, they would not have been available in time to be listed in the May 2007 Cook Inlet Sale, but they would have been listed in the May 2008 Cook Inlet Sale (May 2008 Sale). By approving the Unit, and extending the lease terms, the State missed the opportunity to receive bids on the leases in the May 2008 Sale, but exchanged the value of those bids for bid deferment payments set out in the Initial POE. If the Operator failed to fulfill the commitments in the Initial POE, the unit would terminate and the operator would pay a penalty per acre of expired acreage.

When PERL accepted and assumed the rights and obligations of Successor Unit Operator, it committed to fulfill the duties and obligations in the UA and the Initial POE, which contained the commitments Forest promised to uphold in exchange for the DNR approval of the Unit.

In the Expansion POE, PERL again proposes a well drilling date one year later than set out in the Initial POE, but also commits to drilling more wells and to pursue oil as a primary target instead of gas. The establishment and repeated fulfillment of work commitments by operators, as set out in POEs, establishes credibility. The Division has approved one six-month extension of the drilling date, as well as extensions of the drilling rig contract and heavy lift vessel contract deadlines. PERL now proposes yet another extension to drill for oil, not gas. PERL's commitment to drill more wells and pursue the structure's oil prospect lacks credibility based on its non-performance of existing commitments.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

PERL filed an Application to expand the Unit to include leases that were not drilled during their primary terms just before they were due to expire, and seeks to further delay commitments that it accepted and assumed in the Initial POE.

The opportunity to promote exploration for gas reserves in Cook Inlet in a short time frame with a jack-up rig, which could be used in other parts of the Inlet, was valuable to the State when it approved the Unit. Having a jack-up brought to Cook Inlet was the benefit the State bargained for when it approved the Unit. The utilities serving Southcentral Alaska have not been able to contract for the supplies they need prospectively. Discovery and development of additional natural gas reserves soon provides enormous benefits and security to the residential, utility, and industrial users of natural gas in the region. PERL's Expansion POE would alter and further postpone realizing those benefits by targeting oil in addition to gas in the structure and delaying the Initial POE well drilling commitment.

PERL maintains that the optimal development path of the Corsair structure, as they describe it, is by a single owner, PERL, performing drilling and evaluation of well results

to determine the best location of the next well. PERL maintains that the optimal manner in which to test the Corsair structure, as PERL has mapped and described it, is for a single owner, PERL, to drill and evaluate the exploration prospect.

DNR is charged with, among other things, maximizing competition among parties seeking to explore and develop the resources; AS 38.05.180(a)(1)(B). Allowing PERL to retain non-producing acreage beyond its primary term, through unitization, decreases competition to explore for and develop the resource. The proposed expansion leases, without unitization, will expire and be available at the May 2009 Sale allowing for maximization of competition for the right to explore within primary term and develop the leases.

Although failure to fulfill the Initial POE, as amended, as well as the proposed Expansion POE, would result in bid deferment payments to the State, these payments are not intended to be used as a substitute for the sale process and further extension of lease terms and work commitments.

B. Decision Criteria considered under 11 AAC 83.303(a)

1. Promote the conservation of all natural resources and the prevention of economic and physical Waste

PERL asserts that "[t]he fragmentation of the Corsair structure into unitized and non-unitized parcels with different working interest owners would ultimately result in waste of both economical and physical resources." Appeal at p. 2. PERL expands on this point arguing that 1) without the jack-up rig in Cook Inlet no leases or units will be explored and produced in Cook Inlet, and 2) re-leasing the acreage would lead to "redundancy in facilities, operations and expenditures that would result in economic waste . . . . and physical waste."

Waste is generally defined as the ultimate loss of oil or gas. Conservation is generally the prevention of physical and economic waste.

PERL argues that expansion would conserve whatever oil and gas there is under the existing Unit and expansion leases more than re-leasing the acreage because there would be one set of facilities rather than two. This argument is unreasonable. First, it totally discounts the chance that PERL may get the leases in the next lease sale. PERL's arguments on this point are too speculative—it could get the leases back in the next lease sale or parties could share the cost of a jack-up rig, as PERL implies, to drill multiple reservoirs. Given the history here, the likelihood of redundant facilities is remote. Second, PERL argues, on the one hand, that if I deny expansion it will not deliver a jack-up rig and "no" units or leases will be produced in Cook Inlet, and on the other hand, re-leasing will lead to redundant facilities. Under PERL's theory, if it does not deliver a jack-up rig to Cook Inlet, there will be no additional Cook Inlet exploration and production; if there is no additional exploration, there cannot be any redundant facilities.

Third, redundant facilities may have environmental consequences, but do not necessarily lead to the ultimate loss of oil and gas.

Whether PERL re-leases the acreage or not, the cost of a jack-up drill rig will most likely be shared by parties interested in using it; unitization is not required for multiple owners to contract to share costs for exploring acreage. It would be highly unlikely that lessees would deliver multiple jack-up rigs to Cook Inlet because of the excessive expense.

I agree that without a jack-up rig in Cook Inlet, which PERL committed to deliver when it assumed and accepted its duties as Successor Unit Operator, neither the Unit nor other offshore leases in the area will be explored and produced. It is my desire that PERL fulfill its commitments to deliver a rig and a drill wells in the Unit. If PERL does not fulfill its commitments, the State will endeavor to find another lessee who will deliver a rig for use in Cook Inlet.

DNR questions the validity of any economic conclusions regarding the feasibility of pursuing the oil or gas prospect because PERL has not obtained or submitted enough data to make those conclusions. PERL first asserted that the project economics without the expansion were untenable, then asserted on July 22, 2008 that the project economics were sufficient without the expansion leases. Without additional data from a well drilled on the structure that PERL describes, DNR cannot determine conclusively whether there is resource to conserve. PERL has not obtained or submitted enough data for the DNR to concur that the structure underlies one third, all, or none of its leases.

2. Provide for the protection of all parties of interest, including the State.

The Unit formation was in the State's interest because it was based upon the Operator's (then Forest) commitment to bring a jack-up to Cook Inlet. Forest made this promise based on a gas play underlying the four Corsair leases. DNR approved the Unit, even though the leases had not been drilled during the primary term, because the operator promised to deliver a jack-up rig to Cook Inlet and drill a well less than two years from lease expiration.

PERL assumed Unit operatorship on November 26, 2007, which the Division approved on December 19, 2007. That approval obligated PERL to fulfill the duties and obligations set out in the Initial POE. That plan contained the commitments Forest had promised in exchange for the DNR approval of the Unit.

PERL submitted the Application 42 days before three of the four proposed expansion leases were due to expire. Unless the leases were included in a unit by April 30, 2008, they would return to the state under their terms. An application to expand (or form) a unit requires a 30-day public notice period, which must commence within ten days of the application being deemed complete for consideration. 11 AAC 83.311. Generally, the Division recommends a lead time of at least 100 days before lease expiration to consider a unit application.

The Application proposed, yet again, delaying the deadline for drilling a well in the Unit. PERL proposed an oil prospect underlying the expansion leases that had only been mapped the week before, according to PERL. PERL stated that "without the expansion leases, the prospect is uneconomical and PERL will not be able to justify the delivery of a jack-up drilling rig to the Cook Inlet." I agree with the Division that PERL repudiated this argument when it sought a two-month delay in the heavy lift vessel contract deadline. I, too, expect PERL to deliver a jack-up rig to the Unit in time to drill a well by June 30, 2009.

It is not in the State's interest to renegotiate a commitment and extend additional lease primary terms through unitization when no work was completed by any lessee during the lease primary terms. PERL appears to have not fully and seriously considered the commitment it assumed when it purchased Forest's working interests in Cook Inlet, accepted Forest's assignment of Successor Operator and received DNR's approval as Successor Unit Operator. It is the Operator who must prudently consider and weigh commitments before making them; it is not in the States' interest to accommodate late planning.

If the State were to approve the expansion, DNR would effectively provide PERL an advantage other nearby leaseholders do not have. The lessee must make a significant commitment of resources towards development of leases before the Division will agree to a unit expansion. Otherwise, the lessee is using the unitization process as a tool to avoid lease expiration and hold acreage out of a lease sale.

Although PERL may benefit from the extension of its lease beyond its primary term there are no additional benefits to the State. Unit expansion will not guarantee delineation and production of the prospect sooner than lease-by-lease development by any lessee. No drilling has occurred within the primary term of the proposed expansion leases. Approval of the Unit yielded a potential benefit to the State--jack-up rig delivery and a well within two years--although no wells had been drilled in the primary term.

PERL now seeks to further delay that the well drilling date without any guarantee to the State that it will fulfill this its commitment. Alternatively, the State's interest is protected by strictly enforcing the obligations under the Initial POE, as amended, with the drill date of June 30, 2009. Failure to fulfill the commitment may result in Unit termination, lease expiration, and acreage available for competitive bidding.

V. FINDINGS AND DECISION

1. No drilling or production has occurred within the primary term of the proposed expansion leases. PERL has yet to fulfill its paramount POE commitments—to deliver a rig to the Cook Inlet and drill a well by June 30, 2009.

2. PERL has not presented conclusive geological, geophysical, engineering or economic data to support its conclusions that the Corsair structure underlies the expansion

leases and that without those leases, pursued as an oil play, the economics of rig delivery are infeasible.

3. Unitization is meant to facilitate efficient reservoir production, not to enable lessees of soon-to-expire leases to propose more preferable work commitments.

4. Unitization is not necessary to allow multiple owners of leases to form contractual arrangements that provide for the sharing of costs.

5. I affirm the April 30, 2008, Director's Decision.

VI. APPEAL

This is a final administrative order and decision of the DNR for purposes of an appeal to Superior Court. An appellant affected by this final order and decision may appeal to Superior Court within 30 days in accordance with the rules of the court, and to the extent permitted by applicable law.

Thomas E. Irwin
Commissioner

12/03/08
Date

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

CERTIFIED MAIL
RETURN RECEIPT REQUESTED
7005 1820 0003 7408 3620

October 21, 2008

DECISION

Doyon, Limited
1 Doyon Place, Suite 300
Fairbanks, Alaska 99701-2941

Exploration License
ADL 390079

NENANA EXPLORATION LICENSE NO. 1
EXTENSION APPROVED

The State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) issued the Nenana Basin Exploration License No. 1, ADL 390079, effective October 1, 2002, with a seven-year primary term. The current licensees are Doyon, Limited (40%), Usibelli Energy, LLC (40%) and Arctic Slope Regional Corporation (20%). The license is due to expire September 30, 2009.

On June 25, 2008, Doyon, Limited, as notification lessee, requested that the license term be extended to ten years as allowed by law. The original work commitment has been met; however, due to unforeseen circumstances, the licensees were not able to accomplish additional exploration as planned.

On September 15, 2008, the Division invited public comment on the proposed license extension pursuant to public notice statutes and regulations. Comments were to be received by no later than 5:00 p.m. October 15, 2008. The Division received two comments, one from the Department of Fish and Game and the other from the Resource Development Council. Both agencies' comments were favorable to the extension.

After consideration of the case file and public comments, the Division hereby grants the three year term extension for Nenana Exploration License No. 1 with a new expiration date of September 30, 2012. The licensees must provide the Division with all data obtained to date and during the extended period. When the decision becomes final, the casefile records will be updated without further notice.

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 decision, as defined in 11 AAC 02.040(c) and may be mailed or delivered to Tom Irwin, Commissioner, Department of Natural Resources, 550 W. 7thAvenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-

269-8918, or sent electronic mail to 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 31st 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.

Kevin R. Banks
Acting Director

cc: Arctic Slope Regional Corporation
Usibelli Energy, LLC
Alaska Department of Fish and Game
Resource Development Council
Mari Montgomery, University of Alaska
Bruce Phelps, Division of Mining, Land and Water

C. Current and Projected Uses

The Cook Inlet area's abundant moose, black and brown bear, caribou, and waterfowl, and many fish species form the resource base for subsistence, sport, commercial, personal use, and educational harvest activities, which are integral to the history and culture of the area, as well as contributing significantly to the economy. Residents and visitors use the area extensively for recreation and tourism. Other abundant natural resources support timber, agriculture, mining, and oil and gas industries.

D. Oil and Gas in Cook Inlet

The proposed Cook Inlet lease sale area has low to moderate petroleum potential, based on factors including geology, seismic data, exploration history of the area, and proximity to known hydrocarbon accumulations. Cook Inlet is a mature, producing petroleum basin, which has had extensive exploration and development over the past 40 years. The area continues to be of interest to the petroleum industry, with annual oil production of 6 million bbls (barrels) and annual gas production of 196 Bcf (billion cubic feet) in 2006.

Oil and gas activities proceed in phases; each subsequent phase's activities depend on the completion or initiation of the preceding phase. During the lease phase, the first step in the process of developing the state's oil and gas resources after the best interest finding process, the state conducts competitive areawide sales of oil and gas leases, offering for lease all available state acreage within the sale area. An oil and gas lease grants to the lessee the exclusive right to drill for, extract, remove, clean, process, and dispose of oil, gas, and associated substances; however, a plan of operations, subject to a myriad of regulatory authorities and permits, must be approved before any operations may be undertaken on or in the leased area. In the exploration phase, information is gathered about the area's petroleum potential by examining surface geology, researching data from existing wells, performing environmental assessments, conducting geophysical surveys, and drilling exploratory wells. During the development phase, operators evaluate the results of exploratory drilling and develop plans to bring the discovery into production. Production operations bring well fluids to the surface and prepare them for transport to the processing plant or refinery.

Over 5.9 million acres of state land have been leased in 52 state oil and gas lease sales in the Cook Inlet area since 1959, generating up to $67.7 million in bonuses received by the state. As of April 2008, over 1 million acres were under lease, 483,253 acres offshore and 605,144 acres onshore.

The location and nature of oil or gas deposits determine the type and extent of facilities necessary to develop and transport the resource. However, modern oil and gas transportation systems usually include the following major components: 1) pipelines; 2) marine terminals; and 3) tank vessels. Oil and gas produced in the proposed lease sale area would most likely be transported by a combination of these depending on the type, size, and location of the discovery. Because the Cook Inlet Basin has produced oil and natural gas since the 1960s, it has a well-developed infrastructure for transporting petroleum, especially in upper Cook Inlet.

The risk of a spill exists any time crude oil or petroleum products are handled. Oil spills associated with the exploration, development, production, storage, and transportation of crude oil may occur from well blowouts, or pipeline or tanker accidents. Since 1999, there have been 18 crude oil spills in the Cook Inlet area of 100 gallons or more from pipelines, platforms, onshore production facilities, storage facilities, and marine tankers. Six of these were more than 500 gallons.

E. Governmental Powers to Regulate Oil and Gas

All exploration lease activities are subject to numerous federal, state, and local laws and regulations with which the lessee is obligated to comply. These government agencies have a broad spectrum of

authorities to regulate and condition activities related to oil and gas, and their role in the oversight and regulation of oil and gas activities differ, although some agencies may have overlapping authorities. These agencies include the Alaska Departments of Natural Resources, Environmental Conservation, and Fish and Game; the Alaska Oil and Gas Conservation Commission; the U.S. Environmental Protection Agency; the U.S. Army Corp of Engineers; the U.S. Fish and Wildlife Service; and the National Marine Fisheries Service.

F. Reasonably Foreseeable Cumulative Effects of Leasing and Subsequent Activity

Potential post-lease activities that could have cumulative effects on the area's habitats, and fish and wildlife populations include seismic surveys, construction of support facilities, and drilling and production activities. Some potential cumulative effects of these activities include physical disturbances that could alter the landscape, lakes, rivers, and wetlands; habitat change; behavior changes of fish, wildlife and birds; drawdowns and contamination of groundwater; and contamination of terrestrial or freshwater habitats from discharges from well drilling and production, gas blowouts, or oil spills.

Oil and gas exploration, development, and production activities may produce emissions that have the potential to affect air quality, including carbon monoxide (CO), nitrogen oxides (NO_x), sulfur dioxide (SO_2), particulate matter-10 (PM_{10}), $PM_{2.5}$, volatile organic compounds (VOC), ozone, and greenhouse gases including carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O).

Oil and gas related activities could result in increased access to hunting and fishing areas due to construction of new roads, but this could also increase competition between user groups for fish and wildlife resources. Interference with commercial fishing operations is a potential effect. A major oil spill could harm fisheries through direct lethal or sub-lethal effects to fish stocks, and could decrease resource availability and accessibility for users.

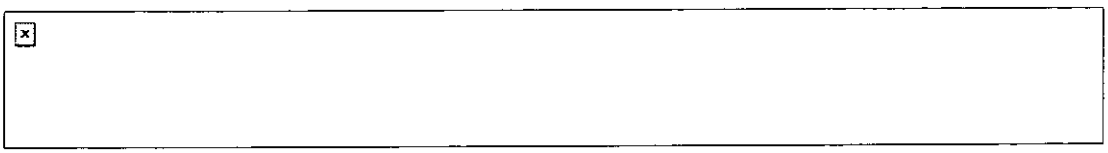
Although oil and gas activities subsequent to leasing could potentially affect habitats, fish and wildlife and their uses, subsistence, air quality, and commercial fishing, measures proposed in this preliminary best interest finding, along with regulations imposed by other state, federal, and local agencies, are expected to avoid, minimize, and mitigate those potential effects.

G. Fiscal Effects and Effects on Municipalities and Communities

Alaska's economy depends heavily on revenues related to petroleum development, which totaled $4.57 billion in fiscal year 2007. The petroleum industry is Alaska's largest industry, annually spending $2.1 billion, including $422 million on payroll and $1.7 billion on goods and services. Overall, this spending generates 33,600 jobs, $1.4 billion in payroll, and value added to the Alaska economy of $1.8 billion for total output of $3.1 billion. Oil and gas accounts for 12 percent of private sector jobs and 20 percent of private sector payroll. The oil and gas industry has the highest monthly wage in Alaska, averaging $7,754, 2.8 times higher than the statewide average of $2,798.

Demand for natural gas in the Cook Inlet area is projected to exceed supply in 2015 unless new reserves are discovered and developed, natural gas is transported to the area by a spur line from the proposed North Slope pipeline, or LNG is imported. Decreasing supplies of Cook Inlet natural gas led to the closure of the Agrium plant in 2007, resulting in the loss of 250 jobs in the Kenai Peninsula Borough. The LNG (liquid natural gas) export license and supply contracts were extended to 2011, but continued operation of the LNG plant may be jeopardized without long-term proven supplies of natural gas. Without increased Cook Inlet natural gas supplies, prices for residential and commercial natural gas and for electricity will continue to increase. Between 2000 and 2006, the

ALASKA Journal of Commerce



Web posted Sunday, November 23, 2008

State denies permit for Point Thomson ice road

By Tim Bradner
Alaska Journal of Commerce

The state of Alaska on Nov. 14 denied a key permit to ExxonMobil for an ice road needed for drilling it plans in the disputed Point Thomson gas and condensate field on the North Slope, upping the ante in a contentious dispute between leaseholders at Point Thomson and the state Department of Natural Resources.

A statement on the agency's decision was posted on DNR's Web site. ExxonMobil said Nov. 17 that it has yet to receive a letter from DNR giving formal notification of the decision. Other state and federal agencies have given their approvals for the ice road, the company said.

The company says it will keep working on the project in hopes of resolving a dispute with the state. The dispute with the state involves past work obligations at Point Thomson. The state alleges ExxonMobil reneged on commitments and has moved to cancel leases. The issue is now in the Alaska courts, and settlement talks are underway between the companies and the state.

"We have the right to conduct drilling activities under terms of the leases. The Point Thomson working interest owners are proceeding with the project and the drilling plan while we attempt to resolve the dispute with the state," company spokeswoman Margaret Ross said.

ExxonMobil, the operator at Point Thomson, needs a state permit to build a 50-mile ice road east from Prudhoe Bay to move a drill rig to the field. Work on the ice road needs to begin in begin in November to allow the rig to be moved in time for drilling to start in late January or early February.

If the rig move cannot be done on schedule, it may delay the project because of seasonal constraints in moving equipment on the North Slope. Heavy equipment can only be moved by land during the winter on the Slope.

The Point Thomson leaseowners, which include BP, Chevron and ConocoPhillips as well as ExxonMobil and a number of minority owners, are planning a $1.3 billion gas cycling condensate production project in the field, which is undeveloped. The well planned in January is the first of five production wells needed for the project, which is to produce 10,000 barrels per day of liquid condensates beginning in 2014.

In a press release issued Nov. 17 the state called the company's effort to get the permit "an effort to force a solution" in the current negotiations over the dispute.

"ExxonMobil has been aware for many months that the state did not approve its drilling plan. Although ExxonMobil has challenged the state's decisions in court, it is not in the state's best interests to allow them to proceed until a court determines whether or not the state's actions were proper," the press release said.

Ross said ExxonMobil believes the leases are still valid.

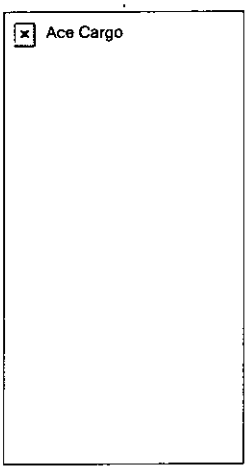
An estimated 9 trillion cubic feet of natural gas and 200 million barrels of condensates have been discovered at Point Thomson in exploration drilling during the 1970s and 1980s.

The field has not been developed to date because of lack of a gas pipeline and technical questions over whether liquid condensates can be produced in a gas cycling project. The current project planned by the companies is intended to resolve the technical questions, ExxonMobil has said in previous briefings.

PERMANENT FUND
($ USD)
26,867 (in millions)
+ 514
Friday's close
(Most Recent Available)

AK NORTH SLOPE CRUDE
WEST COAST DELIVERY
49.00
+ 4.47
Friday's close
(Most Recent Available)
Previous High $144.59 07/03/08

NATURAL GAS
HENRY HUB
6.84
+ 0.29
Friday's close
(Most Recent Available)



Point Thomson reservoir pressures are high, at 10,200 pounds per square inch, which complicates any development, the company has said.

Tim Bradner can be reached at tim.bradner@alaskajournal.com">tim.bradner@alaskajournal.com.

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Alaska Program

Total Acreage 129,618.8 Acres

Oil & Gas Leases	Offshore	126,736.82 Acres
Oil & Gas Leases	Onshore	2,882.0 Acres

Prospects UNRISKED

Offshore
East Kitchen
Kitchen

Probable Reserves
1.6 TCFG 457 MMBO
3.0 TCFG 625 MMBO

South Kitchen

Speculative
1.6 TCFG
100 MMBO

Prospect

Onshore
North Alexander

Reserve
.512 TCFG

Lead

SE Alexander

Speculative
.210 TCFG

Evaluation Of Alaska

ESCOPETA OIL OF ALASKA

COOK INLET BASIN – ALASKA PROGRAM

INTRODUCTION

Escopeta Oil of Alaska is the 3rd largest oil and gas leaseholder in the Cook Inlet Basin, Alaska. Escopeta has identified four prospects in its 129,618-acre position with two of these being the missing giants postulated by the U.S.G.S. in the Cook Inlet Basin, Alaska, in its Kitchen and East Kitchen prospects. Escopeta believes these two prospects will qualify for giant field status, and contain significant amounts of oil and gas.

The East Kitchen and Kitchen prospects are in 70 feet of water six miles north of the Kenai industrial complex being the oil and gas sales complex for the Cook Inlet Basin. They represent 12 years of work, including studies by geologists with extensive Cook Inlet experience and, more recently, the reprocessing of over 200 miles seismic with proprietary technology.

Escopeta began looking for opportunities in Alaska in 1993 and brought its first leases in the state in 1994. The company now owns 129,618.00 acres of state oil and gas leases in the Cook Inlet basin.

Only 4% of oil identified

U.S. Geological Survey geologists have theorized that only 4 percent of the volume of oil that theoretically generated from Cook Inlet source rock has ever been identified.

The Escopeta acreage position at Kitchen and East Kitchen (106,000-acres contiguous) is just to the east of Middle Ground Shoal and situated directly overlying the Tertiary/Mesozoic depocenter, which generates the oil for the northern part of the Cook Inlet Basin.

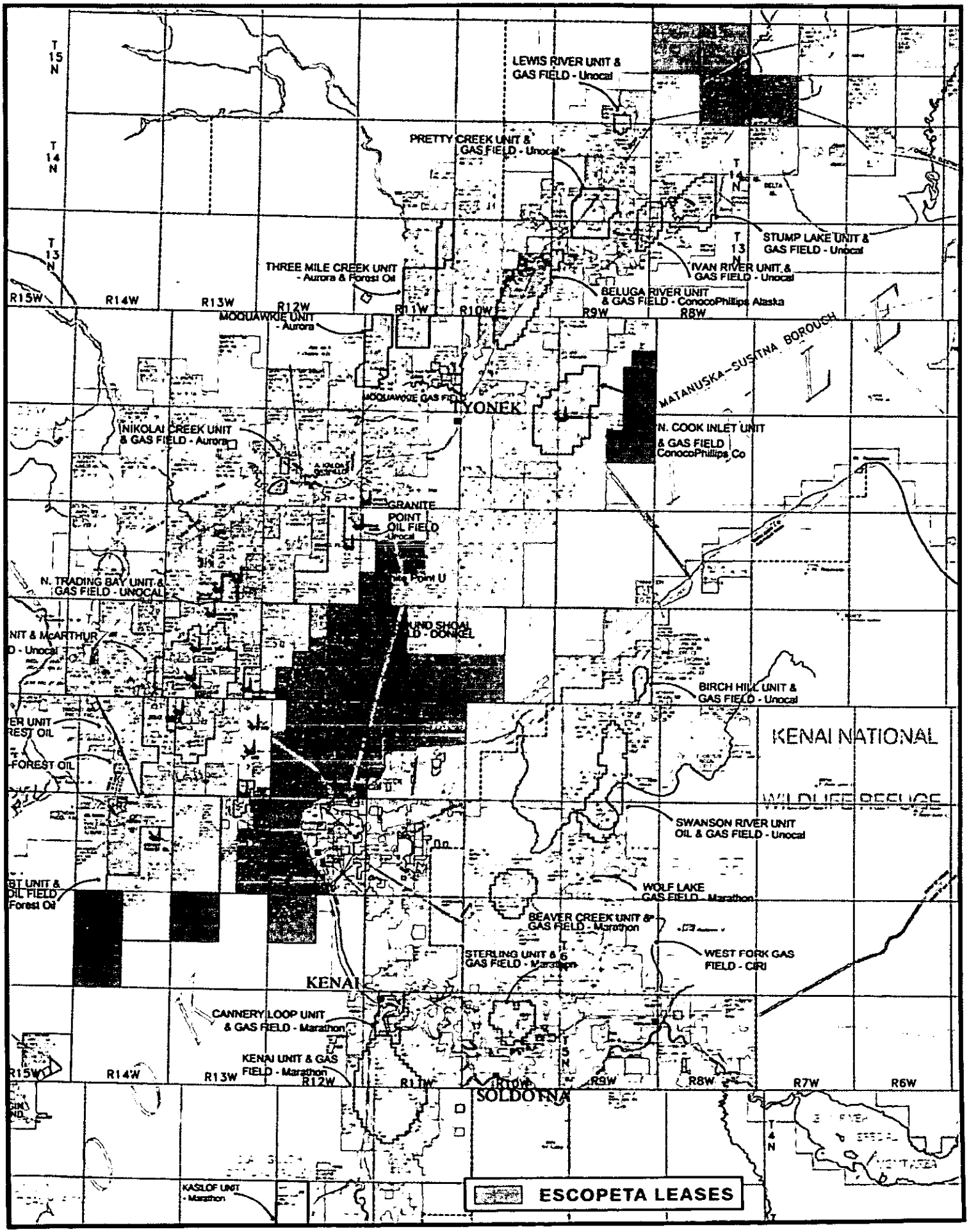
There is strong evidence from geological, geophysical and petrophysical analysis that these prospects are among the "Missing Giants" postulated by the U.S. Department of Energy in the published DOE Report on the Cook Inlet Basin, Alaska of 2004.

ESCOPETA OIL OF ALASKA

ACREAGE OWNED

COOK INLET BASIN, ALASKA

PROSPECT	BID NO.	ADL NO.	ACRES	SUBTOTAL
KITCHEN	160	389910	5632	
KITCHEN	190	389185	4655.19	
KITCHEN	191	389186	5273.07	
KITCHEN	193	390546	1640	
KITCHEN	196	390547	2560	
KITCHEN	232	389917	5760	
KITCHEN	233	389918	4419	
KITCHEN	234	389919	5586	
KITCHEN	280	389924	5660	
KITCHEN	283	389189	2560	
KITCHEN	286	389190	2560	
KITCHEN	287	389191	1920	
KITCHEN	289	389192	2560	
KITCHEN	290	389193	2560	
KITCHEN	291	389194	1280	
KITCHEN	358	390552	2560	
KITCHEN	359	390553	1280	
KITCHEN	362	390554	2536	
KITCHEN	281	389925	5682	66,683.26
EAST KITCHEN	189	389911	875.44	
EAST KITCHEN	192	389912	1335.47	
EAST KITCHEN	228	389914	5121.87	
EAST KITCHEN	229	389915	5643.46	
EAST KITCHEN	230	389916	1408.19	
EAST KITCHEN	232	389917	5760	
EAST KITCHEN	235	389920	5637.13	
EAST KITCHEN	277	390548	5752	
EAST KITCHEN	282	389926	5760	
EAST KITCHEN	199	390731	2760	40,053.56
NORTH ALEXANDER	638	389212	5689	
NORTH ALEXANDER	640	389213	5760	
NORTH ALEXANDER	641	389935	5673	
NORTH ALEXANDER	643	390586	5760	22,882.00
			TOTAL	129,618.82


LEWIS RIVER UNIT & GAS FIELD - Unocal
PRETTY CREEK UNIT & GAS FIELD - Unocal
STUMP LAKE UNIT & GAS FIELD - Unocal
IVAN RIVER UNIT & GAS FIELD - Unocal
BELUGA RIVER UNIT & GAS FIELD - ConocoPhillips Alaska
THREE MILE CREEK UNIT - Aurora & Forest Oil
MOQUAWKIE UNIT - Aurora
MOQUAWKIE GAS FIELD
TYONEK
MATANUSKA-SUSITNA BOROUGH
NIKOLAI CREEK UNIT & GAS FIELD - Aurora
N. COOK INLET UNIT & GAS FIELD ConocoPhillips Co
GRANITE POINT OIL FIELD Unocal
N. TRADING BAY UNIT & GAS FIELD - UNOCAL
BIRCH HILL UNIT & GAS FIELD - Unocal
KENAI NATIONAL WILDLIFE REFUGE
SWANSON RIVER UNIT OIL & GAS FIELD - Unocal
WOLF LAKE GAS FIELD - Marathon
BEAVER CREEK UNIT & GAS FIELD - Marathon
STERLING UNIT & GAS FIELD - Marathon
WEST FORK GAS FIELD - CIRI
KENAI
CANNERY LOOP UNIT & GAS FIELD - Marathon
KENAI UNIT & GAS FIELD - Marathon
SOLDOTNA
KASILOF UNIT - Marathon
ESCOPETA LEASES
T 15 N
T 14 N
T 13 N
T 5 N
T 4 N
R15W
R14W
R13W
R12W
R11W
R10W
R9W
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R7W
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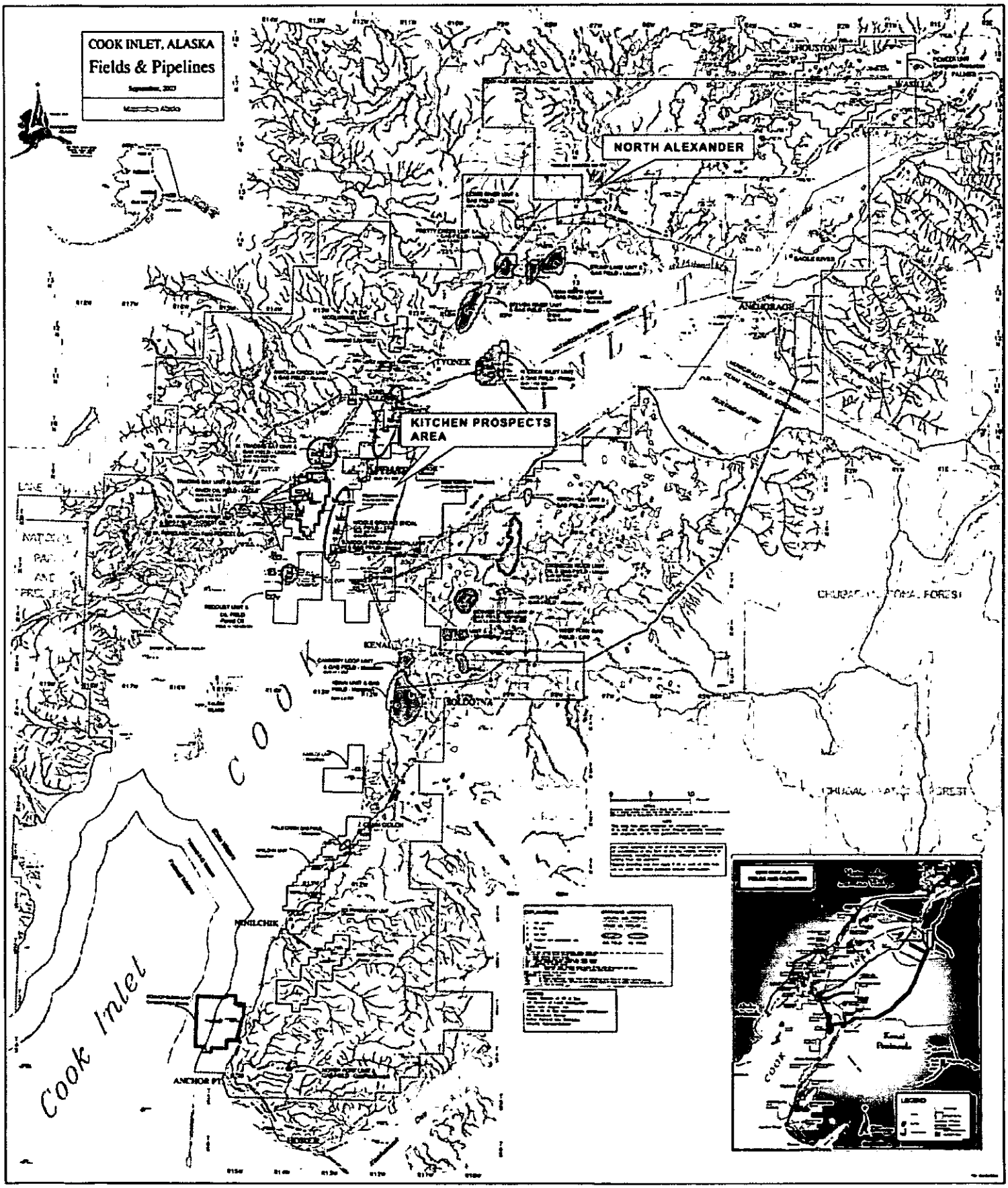
COOK INLET, ALASKA
Fields & Pipelines
NORTH ALEXANDER
KITCHEN PROSPECTS AREA
Cook Inlet
HOUSTON
ANCHORAGE
TYONEK
KENAI
SOLDOTNA
NINILCHIK
ANCHOR PT.

Webb had worked for the Departments of Fish and Game, Community and Regional Development, and Natural Resources... I did some checking and asking around, and I can't find any association with his name and corruption. I am voting for Webb, and the chance for new honest blood in Juneau.

www.oilonline.com/news/headlines/firms_faces/20080415.F - [Cached Version]
Published on: 4/15/2008 Last Visited: 4/16/2008

Fox Petroleum Inc. announced the addition of Bruce Webb as a consultant enlisted to arrange the permitting of two wells on the Catcher's Mitt prospect in Alaska's Cook Inlet.Upon permit approval, the Company plans to drill the two wells during this upcoming winter season.In consideration of the various consulting services to be provided by Mr. Webb to Fox, we agreed to pay Mr. Webb a non refundable fee of US$20,000 and issue 50,000 pre-split restricted shares of the Company's common stock upon receipt of the permitting to drill the above noted gas wells.

"Fox is eager to utilize Mr. Webb's localized knowledge and experience to permit these two wells," said Richard Moore, CEO and director of Fox.

...

Mr. Webb brings over 20 years of land negotiation, compliance and permitting experience, including 13 years with the State of Alaska's Department of Natural Resources as a Natural Resource Specialist, Permitting and Compliance and another five years with the state's Department of Community and Regional Affairs.A long-time participant in the oil and gas industry, Webb's specialty lies in his knowledge of the Alaskan permit process and in negotiating acquisitions and farm-ins.

A life-long Alaskan and well-established member of the business community, Webb is an expert on Alaskan land issues, dealing with oil and gas producers, native communities, local governments and other regulatory entities.Currently he serves as Manager of Land and Regulatory Affairs for Aurora Gas, LLC, President of Webb Petroleum and Vice President of Regulatory Affairs for Alaskan Crude Corporation.

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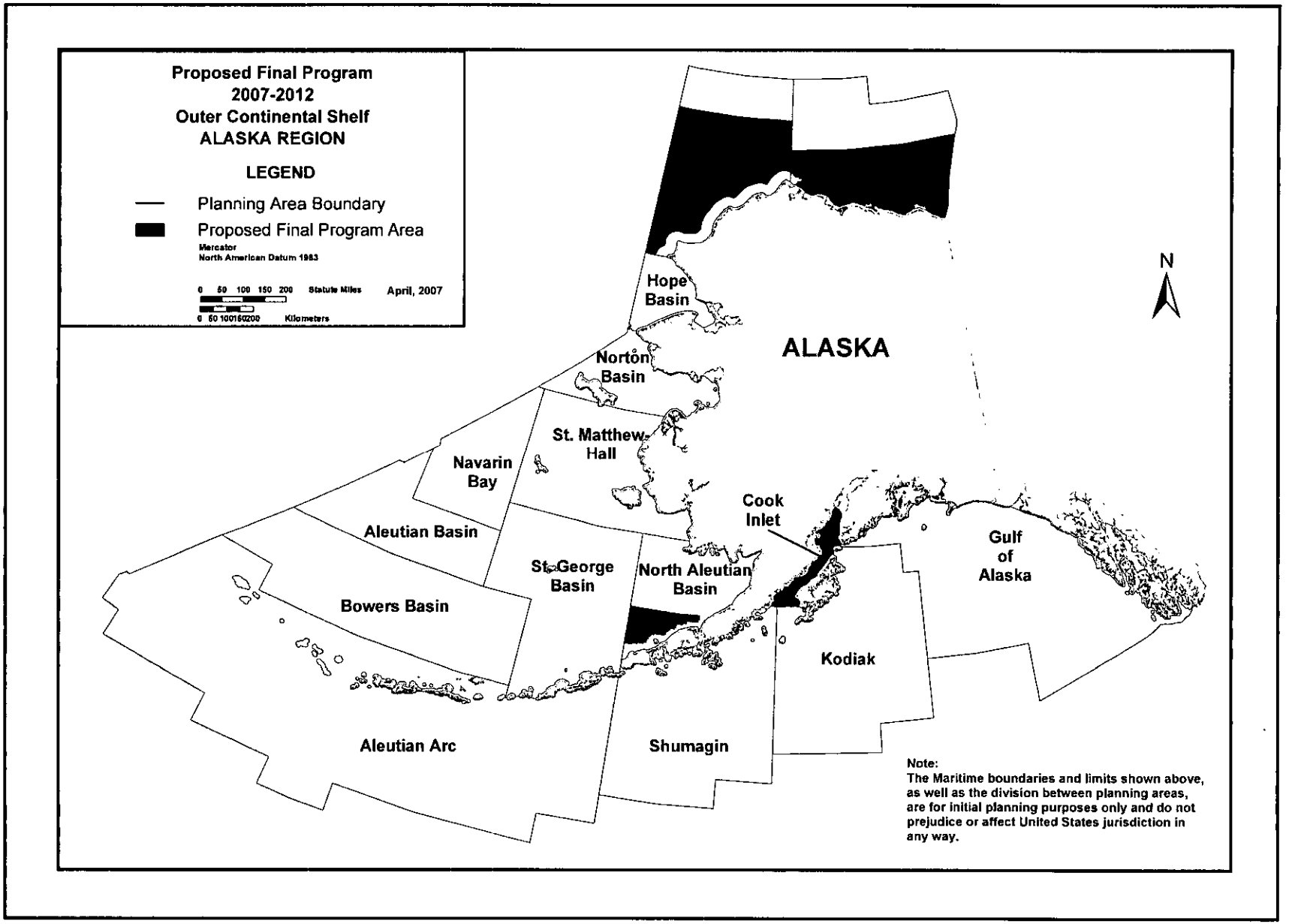
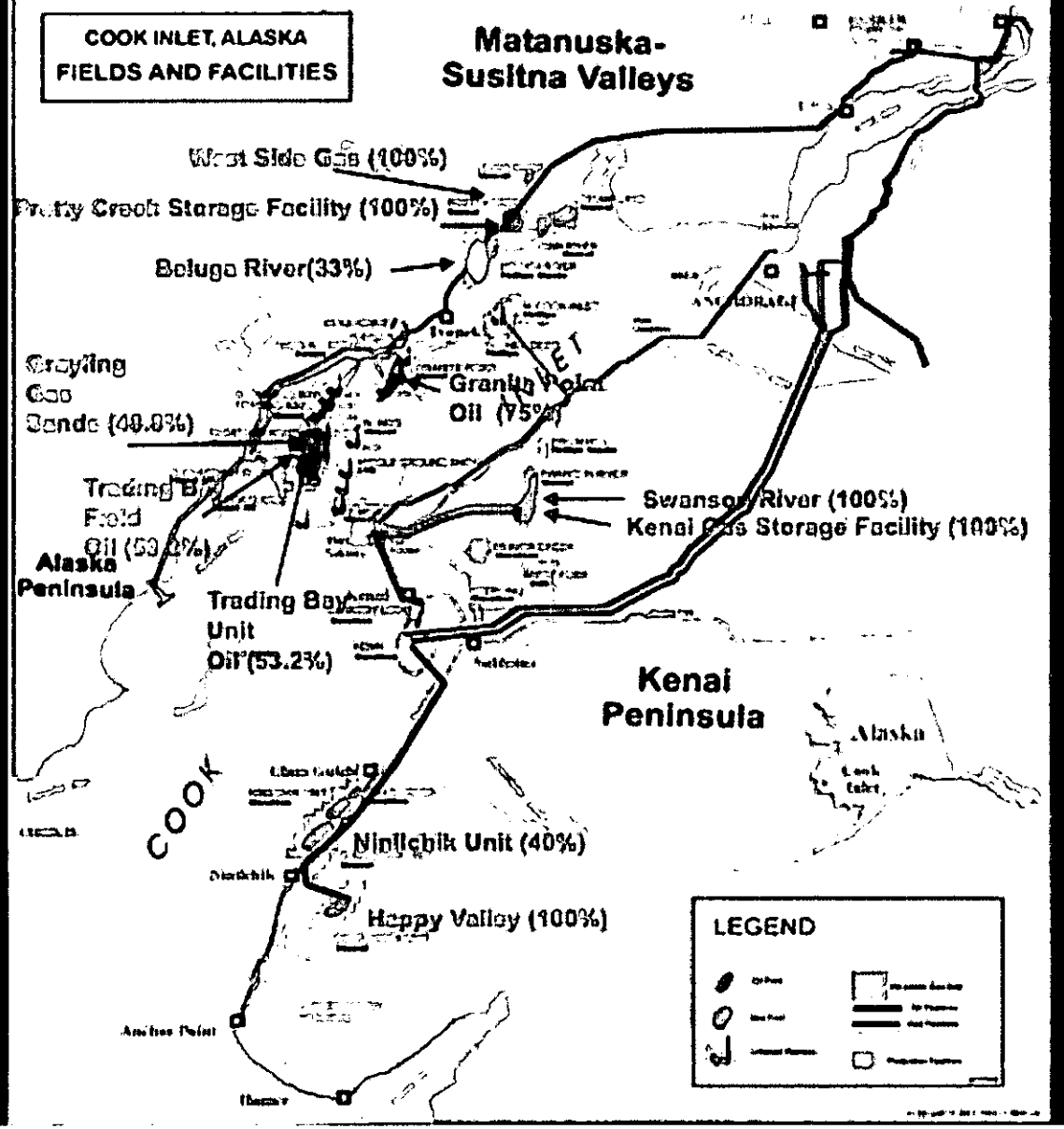
http://labs.daylife.com/journalist/bruce_webb


Proposed Final Program
2007-2012
Outer Continental Shelf
ALASKA REGION
LEGEND
Planning Area Boundary
Proposed Final Program Area
Mercator
North American Datum 1983
0 50 100 150 200 Statute Miles
0 50 100 150 200 Kilometers
April, 2007
N
ALASKA
Hope Basin
Norton Basin
St. Matthew-Hall
Navarin Bay
Aleutian Basin
Bowers Basin
St. George Basin
North Aleutian Basin
Cook Inlet
Gulf of Alaska
Kodiak
Shumagin
Aleutian Arc
Note:
The Maritime boundaries and limits shown above, as well as the division between planning areas, are for initial planning purposes only and do not prejudice or affect United States jurisdiction in any way.

Chevron's Cook Inlet Asset Portfolio



Cook Inlet Offshore :

- 4 fields (all co-op)
- 10 Platforms
- 145 wells
- 2 onshore plants
- 42 mile PL
- 9,800 BOEPD

Cook Inlet Onshore :

- 8 fields (6 co-op)
- 60 wells
- 2 gas storage fields
- WI% in 4 pipelines
- 10,300 BOEPD

Chevron Net Production

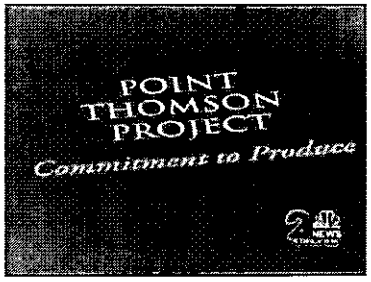
Oil
8,500 BOPD

Gas
78 MMCFPD

= 20,100 BOEPD

<<Back

Exxon states its case for keeping Point Thomson leases



Exxon made its case to hold onto its Point Thomson leases. (Kyle Stalder/KTUU-TV)

by Rebecca Palsha
Monday, December 1, 2008

ANCHORAGE, Alaska -- State lawmakers are asking questions about the feud between ExxonMobil and the Palin administration.

Exxon told lawmakers Monday evening that the company is trying hard to develop the Point Thomson oil and gas field.

But the governor's team says that's a pitch it's heard before.

Craig Haymes spoke on behalf of Exxon. (Kyle Stalder/KTUU-TV)

It all comes down to the Department of Natural Resources and the permits the state leases to oil companies. Part of the deal is the company has to develop its plot.

At a joint House Judiciary and Resources Committee hearing, Exxon and the oil company Escopeta gave lawmakers a sort of sales pitch.

"If these leases don't get extended, we're not going to have any legal actions, I'll just go back to Texas and drill wells there," Escopeta's Danny Davis said. "I'm not here to fight the state, I'm here to work with you guys and rebuild our industry."

Marty Ritherford, Department of Natural Resources deputy commissioner (Kyle Stalder/KTUU-TV)

Exxon wants to keep its leases at Point Thomson -- a resource-rich but long-dormant area just west of the Arctic National Wildlife Refuge.

Craig Haymes with Exxon went through photo after photo showing the work the companies have done developing the area.

"What we're saying is we know we can get a minimum of 10,000 barrels per day through the facilities," Haymes said. "We're designing it for more than that, and we're hopeful when we drill these oil wells they're successful, we'll tie them in and produce the oil as well."

Danny Davis represented Escopeta (Kyle Stalder/KTUU-TV)

But the Department of Natural Resources revoked Exxon's leases, saying the company has had chance after chance to get the job done, issuing 21 plans of operation going back to 1981.

"When people don't honor those commitments we also have to be good land managers and recognize that sometimes it's gonna be the competition that provides for a greater opportunity," said Marty Rutherford, the DNR's deputy commissioner.

Exxon isn't the only company trying to hang onto its leases.

So is Escopeta, which loses its interest at the end of the month. For the past seven years the company has had the leases six miles north of the Kenai but hasn't developed the area.

A two-year extension is all the company needs.

"The future of this country is in your hands, not mine," Davis said. "I'm just going to do the job I'm supposed to do and maybe I can contribute something. But these decisions are very important to this country."

Lawmakers can't force DNR to back off, but Rep. Jay Ramras says he feels the department is holding the state back. Gas prices are high and local communities need help to develop more.

"I'm exasperated and out of patience, and so are the people of Alaska," he said.

The state and Exxon are in litigation right now over those leases, and negotiations to try to reach a settlement are underway. A decision from the court is expected sometime in the spring.

Contact Rebecca Palsha at rpalsha@ktuu.com

adn.com
Anchorage Daily News

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Lawmakers quiz state officials about gas leases

DISPUTES: Two firms want to start drilling but have been blocked by Alaska.

The Associated Press

(12/02/08 23:14:47)

FAIRBANKS -- State lawmakers want to understand why two energy companies ready to drill for natural gas have not received lease-related considerations from the state.

The state's Department of Natural Resources addressed the issue with two House committees on Monday.

Exxon Mobil Corp. and Escopeta Oil want to begin drilling on the North Slope and Cook Inlet, respectively, but have been blocked over lease disputes with the state.

Escopeta's leases in Cook Inlet expire in a month; meanwhile DNR terminated the Point Thomson unit operated on behalf of several partners by Exxon Mobil.

The issue: Is the state fostering development of Alaska resources, or is the agency trying to warehouse leases so it can collect more bonus payments by re-selling them to new buyers.

One lawmaker says this is in contradiction with Gov. Sarah Palin's catch phrase, "Drill, Baby, Drill."

But state officials insist Alaska's leasing program is set up to ensure the best return for Alaskans.

Members of the House Judiciary and House Resource committees quizzed officials from the state's resources department.

Majority Leader Ralph Samuels, R-Anchorage, looked to the bigger picture: what will natural gas field development mean to the state's hope for a large-diameter transcontinental gas line.

"If this state does not get a gas line, we are all so screwed and you can't get it without Point Thomson," Samuels said.

"You want Exxon and Chevron and BP and all the rest of them to put that gas into the AGIA pipeline," Samuels said. "Is that the endgame that's going on here?"

Samuels wondered whether the state seeks to leverage support for TransCanada's pipeline proposal, which was licensed under the Alaska Gasline Inducement Act.

Some say the TransCanada proposal won't succeed without the assurance of gas to come from North Slope producers Exxon Mobil, Conoco Phillips and BP PLC.

Critics also say that a producer-backed line, such as proposed by the joint venture between Conoco Phillips and BP is more likely to materialize.

DNR officials, were somewhat hamstrung because of ongoing negotiations with Exxon Mobil over the Point Thomson dispute that has led to numerous lawsuits and court filings.

"When you tell folks what you plan on doing, your leverage can evaporate," Division of Oil and Gas Director Kevin Banks said.

Banks went on to back DNR's stance of drawing the line on non-performing leaseholders such as Exxon Mobil's slowed movement on the Point Thomson fields, which hold nearly one-quarter of the North Slope's 35 trillion cubic feet of natural gas reserves.

"There comes a time when the state sometimes has to say no," he said. "We will lose control of how our land is developed."

Craig Haymes, Exxon Mobil's production manager for Alaska, told lawmakers the company is ready to move forward.

Haymes said Point Thomson gas will be "essential" to the success of any pipeline designed to carry gas to Midwest markets.

"We're working with all of the agencies," Haymes testified. "We want to work with the state of Alaska to move forward. It's in everybody's interest to drill."

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SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

December 1, 2008

Danny S. Davis
Escopeta Energy Company, Inc.
5005 Riverway, Suite 440
Houston, TX 77056

RE: Kitchen Unit Plan of Exploration
Request for Amendment of the Drilling Commitment Dates

Dear Mr. Davis,

In a December 31, 2007, letter the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) notified Escopeta Oil Company, LLC (EOC), Operator of the Kitchen Unit, (KHU) that the unit was in default because EOC had failed to drill a well at the KHU no later than December 31, 2007, as required under the KHU Plan of Exploration (POE). The Division granted EOC a one year period to cure the default, until December 31, 2008, to

1. "...drill one exploration well, within the KHU:
   a. to one of the three bottomhole (BHL) locations within the KHU, as set out in Table 1, below, and;
   b. To 16000 to 20000TVD to test the sterling, Beluga, Tyonek, and Hemlock formations;

TABLE 1: PROPOSED WELL LOCATION INFORMATION

East Kitchen #1	Kitchen #1	Kitchen#2
ADL 389926	ADL 389924	ADL 389917
T 9 N., R 11 W., S.M.	T 9 N., R 11 W., S.M.	T 8 N., R 12 W., S.M.
Sect. 22	Sect. 18	Sect. 3

The cure of default period, in effect, deferred the drilling deadline by one year as requested by EOC.

On November 20, 2008, the Division received a request from EOC to amend the KHU POE. EOC submitted a draft Amended KHU POE which proposes the following summarized extensions to the December 31, 2008 drilling commitment.

1. EOC obtain all necessary regulatory permits and authorizations for the drilling of an exploration well by December 31, 2009. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
2. EOC will drill a first exploration well by December 31, 2010. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
3. EOC will drill a second exploration well by December 31, 2011. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
4. EOC will request approval of an Initial Participating Area within the KHU by December 31, 2010.

EOC also submitted a heavy lift vessel contract signed by EOC, Pacific Energy Resources, Ltd. (PERL), and the vessel owner, a jack up rig contract signed by PERL and Blake Offshore, LLC, owner of the Blake 151 rig, and a rig sharing agreement signed by EOC and PERL. EOC requests the Division hold these documents confidential under 11 AAC 82.810.

"The unit operator may, with the approval of the commissioner, amend an approved plan of exploration" 11 AAC 83.341 (e) Plan of Exploration. EOC's request letter incorrectly cites 11 AAC 83.343(e), Plan of Development. The Division does not approve the draft Amended KHU POE because it does does not meet the criteria necessary for approval in accordance with11 AAC 83.303(1)-(3).

Approval of the Amended KHU POE will not promote conservation of an oil or gas pool, field, or like area. 11 AAC 83.395 (1) "conservation of the natural resources of all or part of an oil or gas pool, field, or like area" means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources." Escopeta has not yet drilled an exploration well which would identify a reservoir as defined by 11 AAC 83.395(6), "an oil or gas accumulation which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of oil and gas." No well has ever been drilled within the boundary of the Kitchen Unit. KHU has no production of oil or gas.

Approval of the Amended KHU POE will not promote the prevention of economic and physical waste and does not provide for protection of all parties including the state. EOC describes having "expended a very significant amount of financial and physical resources" and requests approval to "protect the vested interests of both EOC and PERL". EOC successfully bid upon leases, which when issued bound EOC to certain terms and conditions including a specific primary term which gave EOC the sole right to retain that acreage for seven years, to conduct oil and gas exploration work. Term 4(b) of the Kitchen Unit leases describes the conditions under which the lease may be

extended beyond primary term by unitization. The Division approved the formation of the Kitchen Unit, despite the absence of drilling in the leases' primary term, because it relied on the future benefit provided by fulfillment of work commitments agreed upon in the KHU POE; to bring a jack-up to Cook Inlet and drill an exploration well. In exchange for the approval of the KHU and extension of the leases' primary terms, EOC agreed to bring a jack-up to Cook Inlet and drill a well. The goal of unitization and work commitments is not to protect vested interests, but to protect the interest of all parties.

EOC submitted the confidential vessel, rig, and rig sharing contracts to demonstrate progress made in fulfillment of the work commitment, to cure the default. The Division does not accept the contract submittals as demonstrating progress.

The heavy lift vessel contract is the same confidential contract submitted by PERL to fulfill the amended Corsair Unit POE October 31, 2008 work commitment. The Division did not accept that contract as a fulfillment of the work commitment set out in the amended Corsair Unit POE, and the Division does not accept that contract here for the same reasons, see attached letter from the Division to PERL, dated December 1, 2008. The Division does not accept the rig sharing contract signed by EOC and PERL for similar reasons: the rig sharing contract does not provide an effective date, (the contract does not "commence"), does not require any deposit from EOC to PERL, and does not represent a firm commitment between the parties, as stated in the agreement itself.

The draft amended KHU POE proposes that EOC will obtain all the necessary permits to drill a well by December 31, 2009. That EOC has still not yet obtained permits for the promised well, despite the extension of the drilling date by one year, does not demonstrate EOC's progress in fulfillment of the work commitment.

The extension request from EOC also discusses the potential waste of the physical resources of the state. EOC believes that if the KHU terminates, the time and effort of the state to review, adjudicate, approve and oversee the unit to date would be wasted. EOC also observes that if the unit terminates, the KHU leases would not be available for competitive bid until the May 2010 lease sale at earliest due to

> "the time necessary to approve the 2009 Cook Inlet Areawide Best Interest finding ("BIF"), the potential appeals and litigation associated with the BIF, the subsequent appeal of the KHU POE modification denial (this request), and the necessary title research and time restraints necessary to include the KHU leases in a any upcoming lease sale, ..."

Contemplating future appeals does not form a rational basis for approving extensions to work commitments.

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 decision, as defined in 11

AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. 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.

If you have any questions regarding this decision, contact Temple Davidson with the Division at 907-269-8784.

Sincerely,

Kevin R. Banks
Director

cc: Jeff Landry, DOL
Julie Houle, DOL

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

December 1, 2008

Vladimir Katic
Executive Chairman & Chief Operating Officer
Pacific Energy Resources Ltd.
111 West Ocean Blvd.
Suite 1240
Long Beach, CA
90802

Subject: Heavy lift vessel contract
Corsair Unit default notice and cure

Dear Mr. Katic:

On April, 1, 2008, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division), conditionally accepted a Corsair Unit default cure provided by Pacific Energy Resources, Ltd. (PERL), Operator of the Corsair Unit. The Division established two work commitments in that letter, one due by April 30, 2008, which PERL has satisfied, and the other due by July 31, 2008.

> [B]y July 31, 2008, the Unit Operator shall provide the Division with a copy of the signed contract for the heavy lift vessel capable of transporting the Blake 151 rig to Cook Inlet Alaska and will provide evidence of payment of the 50 percent deposit required to commence that contract. That contract must specify a departure date for the heavy lift vessel with the Blake 151 rig to Cook Inlet Alaska that will allow the Unit Operator to fulfill the June 30, 2009, drilling commitment date. Upon departure, the Unit Operator shall provide the Division with an affidavit confirming the departure date.

On July 8, 2008 PERL requested that the Division approve a 60-day extension--until September 29, 2008--to the July 31, 2008 heavy lift vessel contract submittal date. PERL also requested that the

Division revise the requirement that PERL "provide evidence of payment of the 50 percent deposit required to commence the contract" to "provide evidence of the payment for contract commencement in accordance with the terms of the vessel contract."

The Division orally requested that PERL clarify whether it requested an extension to the heavy lift vessel contract submittal date based upon the existing Corsair Unit, comprised of four leases, or the previously proposed expanded Corsair Unit, comprised of eight leases.

The Commissioner is currently reviewing PERL's appeal of the Division's April 30, 2008 decision denying PERL's March 18, 2008 application to expand the Corsair Unit. As part of the appeal, PERL had maintained that without unit expansion, it would not be economic to bring the jack-up rig. In a July 22, 2008 follow-up to its July 8th letter, PERL represented that its request for an extension to the deadline for submittal of the heavy lift vessel contract applied to the "*existing* Corsair Unit." The July 22nd follow-up letter confirmed that PERL intended to fulfill the drilling commitment agreed to in the amended Corsair Unit Plan of Exploration (Corsair Unit POE), based upon the existing Corsair Unit.

On July 30, 2008, the Division approved PERL's request to delay the heavy lift vessel contract deadline by sixty days. The Division approved the request because the delay would not impact the June 30, 2009, drilling date deadline set out in the amended Corsair Unit POE. The Division also opined that it "interprets PERL's vessel contract extension request as a repudiation of its appeal argument that delivering a rig is uneconomic with the expansion leases." The Division observed that PERL provided no evidence for its assertion that the rig delivery would be uneconomic without the expansion leases.

On September 24, 2008, the Division received yet another request to extend the contract submittal date--until October 31, 2008. In a September 29, 2008 letter, the Division approved a 32-day extension of the contract deadline, until October 31, 2008. All other provisions of the Corsair Unit POE, as amended on January 29, April 1, and July 30 2008, remained unchanged.

On October 31, 2008, PERL submitted a contract and cover letter requesting various lease "extensions and/or reinstatements" (lease requests), both of which PERL requested be held confidential. On November 6, 2008, PERL clarified the request for confidentiality, citing AS 38.05.035(a)(9)(A)-(F). For the purposes of this decision, I am assuming that PERL meant to cite the relevant portions of AS 38.05.035(a)(8)(A)-(F), which provide confidential status for "cost data and financial information." *See* AS 38.05.035(a)(8)(D).

The Division does not accept the contract as a fulfillment of the work commitment set out in the amended Corsair Unit POE for the following reasons.

First, the contract's condition precedent is unacceptable to the Division. It provides that if DNR does not grant PERL's October 31, 2008 lease requests by December 31, 2008, the contract is "null and void." *See* contract Clause 29. Similarly, the contract's lead-in language provides that it "shall become effective on the occurrence of the Leases Extension Date defined in Clause 29 hereof

provided the OWNER has a suitable vessel available for transportation of the Cargo as per Clause 29 (***"Effective Date"***). If the Effective Date does not occur, this Contract shall be null and void . . . ." In other words, the contract seems to state that it does not take effect if DNR does not approve the lease requests by December 31, 2008, or the owner does not have a suitable vessel when the requests are granted.

The amended Corsair Unit POE provides, and PERL's July 22, 2008 letter confirmed, that the contract relates to the existing Corsair Unit, not to an expanded unit or to any other state leases or lands in which PERL has or had an interest.

As stated above, the Commissioner is reviewing PERL's appeal of the Division's April 30, 2008, decision denying PERL's March 18, 2008, application to expand the Corsair Unit. The other lease requests pertain to lands or leases in which PERL either has no interests (the Kitchen Unit leases and the expired exploration license) or has existing interests either with fixed, non-extendable terms (the existing exploration license) or that are subject to extension only under certain circumstances (the four individual leases). Because these other lease requests include lands and leases in which PERL either has no interests or that DNR has no current authority to extend, DNR cannot approve the requests by December 31, 2008. Thus, the contract's condition precedent prevents the contract from ever taking effect.

Second, the Contract does not "specify a departure date for the heavy lift vessel with the Blake 151 rig to Cook Inlet Alaska that will allow the Unit Operator to fulfill the June 30, 2009, drilling commitment date." *See* April 1, 2008 Division decision quoted above. Contract Clause 7.1 provides for a "Loading Window" "between March 1, 2009 and May 15, 2009." Given the transit times set out in the transport quotes that PERL submitted on July 8, 2008 (between 46 and 169 days, weather permitting), this "window" may not allow sufficient transit time to allow PERL to fulfill the June 30, 2009 drilling commitment, as set out in the amended Corsair Unit POE. *See* January 29, 2008 Division decision. If the lift vessel arrives safely, probably in Seward, and unloads the Blake 151, which is welded to the lift vessel, the rig must be prepared for drilling, moved to the drilling location in Cook Inlet, and the well drilled. The June 30, 2009 drilling commitment requires PERL to "[d]rill a well to the lower Sterling and upper Beluga gas sands . . . ." See January 29, 2008 Division decision. These operations, after arrival of the rig, could take six weeks or more to complete.

And third, while the Division approved amending the 50 percent vessel deposit requirement on July 30, 2009, it anticipated some level of deposit based on PERL's July 8, 2008, letter and attached transport quotes, which set out deposit amounts at signing of between 10 and 15 percent. Contract Clause 5, however, provides for no deposit, and in fact, there is no payment due if DNR does not grant PERL's lease requests by December 31, 2008, or if there is not a suitable vessel at that time. Paying a significant deposit at the signing of a contract establishes the credibility of the depositor to maintain their side of the deal in exchange for receiving like value from the other party. Without significant deposits it is unlikely that PERL will secure a firm departure date on the heavy lift vessel schedule. The lack of deposit erodes the likelihood that the contract will commence.

Under 11 AAC 83.374(a), "[f]ailure to comply with any of the terms of an approved unit agreement, including any plans of exploration, . . . is a default under the unit agreement." Effective December 1, 2008, the Corsair Unit is in default because PERL has not complied with the terms of the Corsair Unit POE by failing to submit an acceptable contract, as described above. The default cure period is 90 days from the date of this notice, or March 1, 2009. On or before March 1, 2009 PERL shall submit an acceptable contract, without any conditions precedent, which would enable PERL to drill a well within the Corsair Unit no later than June 30, 2009.

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 decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. 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.

If you have any questions regarding this decision, contact Temple Davidson with the Division at 907-269-8784.

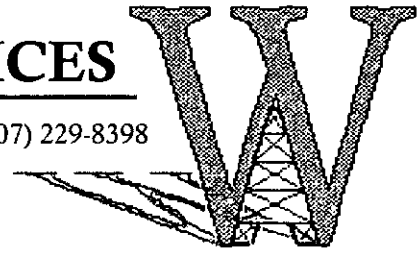
Sincerely,

Kevin R. Banks
Director

Cc: Julie Houle, DNR
Nan Thompson, DNR
Jeff Landry, DOL

WEBB PETROLEUM SERVICES

Alaskan Operations: P.O. Box 113141 ◆ (907) 229-8398
Anchorage, Alaska 99511-3141



Legislative Hearing on DNR Permitting and Unit Plans of Exploration and Development
December 1, 2008 in Anchorage, Alaska
Post-Hearing Comments

To: Representative Jay Ramrus
Representative Craig Johnson
Representative Ralph Samuels
Representative Nancy Dahlstrom
Representative Carl Gatto
Representative Max Gruenberg
Representative John Coghill, Jr.
Representative Paul Seaton
Representative Peggy Wilson
Representative Bob Lynn

Dear Representatives,

The views expressed herein are my own and may not be shared by Aurora Gas, LLC; Pacific Energy, Ltd; Escopeta Oil Company, LLC; or Fox Petroleum (Alaska), Inc.

As I stated in Monday's hearing, my name is Bruce D. Webb and I am a born and raised Alaska resident. I have worked for the State of Alaska for over 20 years, 13 of which with the Department of Natural Resources, 11 of those in the Division of Oil and Gas, as a Natural Resource Specialist specifically responsible for approving Plans of Operations, Oil and Gas Bonding, and site closures. I also worked very closely with Lease Administration and the Units Section.

I am currently the Land and Regulatory Affairs Manager for Aurora Gas, LLC, which is a small independent natural gas exploration and production company in the Cook Inlet. I also own and operate Webb Petroleum Services where I assist independent oil and gas companies with permitting, unitization and plans of exploration and development. In addition, I own Webb Exploration and Production, LLC and was the successful bidder on three offshore Cook Inlet Oil and Gas Leases; I own the Ridge Development Company, LLC which is a real estate holding and development company; and I am the owner and Broker of Executive Realty.

I was recently elected President of the Alaska chapter of the American Association of Professional Landmen (AAPL), which is a professional organization comprised primarily of oil and gas, and other resource development landmen and permitters. We focus on industry concerns and ethics.

As I stated in an earlier e-mail, I also ran for State House, loosing the Primary Election by only 61 votes.

As you can see, I have a fairly diverse background and considerable knowledge in land and permitting matters, specifically as they relate to resource development. I am not a fanatic, nor a slouch. I am not a liar either. If I say something, it will be the truth, without exception.

Unfortunately, I do tend to be sarcastic when things are to a point of being ridiculous, outrageous or nonsensical. I will try very hard to refrain from being sarcastic regarding the actions of the Department of Natural Resources and the Division of Oil and Gas. If I come across as being angry, it is because I am.

First and foremost, I have been proud to be an Alaskan, and I sincerely care about the direction our economy and attitude towards resource development is going. It actually embarrasses me as an Alaskan who knows full well the potential our great state has to offer, and at the same time is being stifled by the current administration.

I would like to offer the following post-hearing comments for the record. I encourage you to contact me directly if you would like to discuss any matter personally. My contact information will be at the end of my comments.

As I stated in the hearing, it has been 15 years since the Gilbert Rowe jack-up rig left the Cook Inlet. For the past 15 years, or longer, not one single major oil and gas company has bid on one single offshore Cook Inlet exploration lease. I say exploration lease, because I do not consider those leases either adjacent to the coast of adjacent to an existing platform as truly offshore exploration acreage. I am referring to only those leases that require an exploratory jack-up drilling rig. This statement is a matter of public record. There have been several independents and individuals bid on these leases, but not a Chevron, Marathon, ConocoPhillips, or the like.

Virtually every lease that has been issued in about two decades have resulted in the bonus bids and lease payments being nothing more than a charitable contribution to the State and a tax deduction to the lessee. These leases are absolutely worthless without a jack-up drilling rig. We now have two companies, fighting the DNR to get approval to explore a large block of offshore Cook Inlet leases, which they believe will be extremely productive, and which will require them to bring up a jack-up drilling rig. Instead of the DNR unequivocally granting them the permission and time needed, it instead only grants them portions of an approval with onerous commercial stipulations. Each time an agreement is fulfilled, the DNR changes the rules, adds additional requirements, and refuses to just let these companies give it their best shot. Why is the DNR making it so difficult on these two companies?

The DNR states that the companies are simply warehousing the leases with no real intention on exploring or developing them. Given the DNR's past decisions regarding the <u>only</u> two companies that have come forward in a decade and a half with offshore exploration plans, I submit to you that it is in fact the DNR itself who is warehousing the leases... but for whom? Certainly not the State of Alaska or the public.

The DNR has no qualms in issuing these leases to individuals and companies with no plans or ability to drill any wells, but when a company comes forward with plans, they look for reasons to say no, or burden the plans with such onerous and incremental requirements that it makes moving forward with any plans, especially financial ones, almost impossible. Instead, the DNR SHOULD BE encouraging them to try and succeed.

The DNR stated in Monday's hearing that their resource evaluation staff did not believe the resource was adequate for unitization. If that were true, why such resistance? If a company wants to come to Alaska, spend hundreds of millions of dollars drilling dry holes and employing Alaskans, why not let them? How could it possibly hurt? At least we would get a much needed and long awaited jack-up drilling rig here.

Throughout the Corsair Unit expansion request, it was painfully obvious that it was the DNR's predetermined decision to deny the request. Even at the application stage, the DNR tried to impose unnecessary and useless requirements on Pacific Energy in an apparent effort to delay the filing of the application to run the "public review clock" out of the required time needed by regulation, by its contention that the application was not complete. I had to go to Lt. Governor Parnell's office and speak to him and his Chief of Staff, Jay Pullins, about this unfair, nonsensical and prejudicial treatment. Sean's response was to wait and see if the DNR makes the deadline first, he didn't want to intervene on Irwin because he was afraid Irwin would "walk off the job again". Fortunately, the DNR issued the required notice the day before it ran out of time.

When the Denial was issued, it was clearly written several days before it was issued – on the absolute last day of the lease, not allowing Pacific Energy the right of due-process with the AOGCC for a compulsory unitization expansion request. They sat on the decision until 2:30 pm on the last day, knowing it would make the DNR Pacific's only choice for resolution. See the appeal. This was under-handed and in very bad faith.

Back on the Cook Inlet leases. The major oil and gas companies, who have the resources necessary and available to explore and develop these leases don't have to bid on them. They know the leases are worthless without a jack-up rig, and therefore not a threat to the closed-market here in the Cook Inlet. They just sit back and watch countless lessees waste their money. It is as though the DNR's goal is to warehouse these leases and inhibit their exploration and development, until a certain company comes forward and says they are ready. The problem is, the people of Alaska are screaming "We are ready", but to the deaf ears of the DNR. So if these appointed officials are not working for the State of Alaska or the people of Alaska, who are they working for?

If they contend that these leases will be better off being taken back and offered in a competitive bid – have them show you the competition. It simply does not exist. If they say it is better to deny Pacific's and Escopeta's plans to drill a well by June 2008, and instead offer the lease in the May 2008 sale.... how does that make any sense? Not only the obvious questions as to who will be bidding, what will they bring to get it done, and when.... but for God's sake, June of 2008 is only a month after May 2008 – doesn't it make more sense to just let them try first.

It is just terrible how the Division and the DNR is handling this, they keep stringing the companies along with little portions of an approval, without the actual go-ahead they need, and in doing so continually run them up against a time crunch and a bureaucratic barrier that requires them to ask for another extension. The DNR itself is creating a self-fulfilling prophecy to make sure these leases are not drilled and the company's fail.

NOW WE HAVE the next round of appeals from these two companies, in order to protect their investments and hopefully be allowed at some point in the future to prove up on their plans. I cannot believe Acting Director Banks stood before you, fully knowing that he had just denied their plans once again, and told you that he was "working with the companies", and that they "did not have a drilling rig contract or a heavy-lift vessel contract." Not only were these bold-faced lies to you and to Mr. Davis of Escopeta, but he didn't even have the professional courtesy or backbone to openly admit that he had already denied the requests. It is terribly unfortunate that these DNR representatives were not under oath.

Representative Ramrus made a comment about the Judiciary Committee needing to resolve all appeals with 6 months, or they didn't get paid. He went on to ask Commissioner Irwin what he would think about being required to answer an appeal in 6 months, and Irwin replied: "If I was forced to make a decision, I would make a decision." Why the does he need to be forced into making a timely decision? What has happened to professional courtesy? Why all the posturing and "leveraging" behind closed doors?

How can he or Acting Director Banks say that the appeals from Pacific Energy and Escopeta are not all related to the ExxonMobil Appeals? How can they say that they are "working with" these companies, when all they do is deny perfectly acceptable and entirely possible plans? If the answer to the Corsair appeal was so straight-forward and fair, why not rule on it now, or at least in a timely manner? Where has Good-Faith negotiating gone, and who the heck do these public officials really work for?

It is painfully clear that just because you can hear these officials say something, does not necessarily mean they are telling the truth. What exactly is going on behind closed doors that is motivating such a hard-line, anti-development attitude?

If you want to know the truth about the Jack-up drilling rig contract, or the heavy-lift vessel contract, certainly DO NOT believe anything Banks or the DNR says. In fact, you don't even have to believe Escopeta or Pacific Energy.... contact Paul Butler who operates the Blake Offshore Jack-Up Drilling Rig and Dagfinn Thorsen of Offshore Heavy Lift Transport who operates the vessel:

Paul Butler	Dagfinn Thorsen
Blake Offshore Drilling	Offshore Heavy Lift Transport
PButler@blakeoffshore.com	dt@oht.no
(504) 885-7449	+47 2301-1423 (Norway)

Get the facts about these contracts and the real possibility for them to be executed and Alaska getting the much needed jack-up drilling rig, directly from the horse's mouth.

Acting Director Banks said he was: "Not convinced a well will be drilled" by these two companies. Does that mean he IS convinced a well will NOT be drilled? Does that mean he is convinced someone else is going to magically appear out of no where and drill a well in these leases if he takes them away and runs these companies out of the State of Alaska, and possibly out of business? I think not. It is purely a biased, arbitrary, capricious and prejudicial personal assumption on his part, plain and simple.

If no other company is standing on the sidelines with a jack-up rig, ready to drill some exploration wells in the Cook Inlet, why not give these two companies a fair chance? As for "willy-nilly" lease terms and "loosing the ability to manage our lands" if these leases are extended, HARDLY. The DNR has extended many leases and unit plans of exploration and development a multitude of times in the past, and it has had absolutely no effect on the DNR's ability to manage **our** lands. Their arguments are lacking any factual basis.

Another point is that the Department of Energy has stated that the Cook Inlet has enormous potential and reserves that have not yet been adequately explored. There are a tone of unleased blocks of acreage available for other companies to bid on and explore. Why the urgency in taking back the Corsair and Kitchen leases – which these companies have invested hundreds of millions of dollars acquiring the leases, forming units, identifying the reservoir and making commitments to explore? How is it in the State's best interest to take their investment and offer it up to another company, who has no current stake in the game, and will simply be receiving an unfair enrichment?

In the most recent denials dated 12/1/08 of Pacific Energy's and Escopeta's plans, specifically relating to the DNR's rejection of the heavy-lift vessel contract – which Acting Director Banks testified as not existing on the very same day, the DNR makes very explicit points about the amount of the heavy-lift vessel earnest money amounts which the DNR wanted to require. Since when is it the DNR's responsibility to set the amounts of commercial contracts between two parties?

A company should be able to go out and secure the best deal they can, with the highest level of safeguards possible to protect their investment and limit their liability and exposure. Given the legacy of blatantly absurd and arbitrary denials form the DNR, wouldn't any prudent business owner try and protect themselves from an uncertain and unpredictable regulatory regime? Seriously, if you had no assurances you would be able to drill a well on your leases, just because the DNR decided to say no at the end of the day, wouldn't you want to protect your finances?

The DNR's responsibility is to lease and manage the lands and resources for development and the generation of revenue. It is not their responsibility to set commercial contract terms, or even to approve those contracts. They wanted evidence of a heavy-lift vessel contract, and they got it.

The DNR's July 30, 2008 letter which amended their April 1, 2008 Default Cure requirements for Pacific Energy's Corsair Unit stated, exactly:

The Division estimates that a 60-day extension of the vessel contract deadline will still allow time for PERL to transport the Blake 151 to Cook Inlet Alaska in time to fulfill the June 30, 2009, drilling date. Thus, the Division approves the request for a 60-extension to the July 31, 2008, work commitment date until September 29, 2008.

With its vessel deposit requirement request, PERL submitted a summary spreadsheet that lists six carriers' contract terms. Each carrier has different lump sum prices and payment terms. All carriers require a deposit less than 50 percent, due at signing, with a subsequent larger deposit due at loading. Thus, the Division approves the request to amend the vessel deposit requirement.

All other provisions of the Corsair Unit POE, as amended on January 29 and April 1, 2008, remain unchanged by the decision.

The requirements for the heavy-lift vessel contract in the 4/1/08 Default Cure from DNR required four things:

1. By July 31, 2008 (amended to September 29, 2008, further amended by DNR letter dated 9/28/08 to October 31, 2008 because the parties were still negotiating the contract) proof of a signed heavy lift vessel contract capable of transporting the Blake 151 jack-up drilling rig.

The heavy lift vessel contract was sign, sealed and delivered to the DNR on 10/31/08, as required.

2. Provide evidence of payment of the 50% deposit (now amended to "the required deposit") required to commence the contract.

The "required deposit" was 5%, which was paid and evidenced to the DNR. Additional incremental deposits are also listed in the contract, the next one being due on 1/15/09.

3. Specifics in the contract that for a departure date that will allow the rig to be delivered to the Cook Inlet to fulfill the June 30, 2009 drilling commitment.

The departure date is between March 1, 2009 and May 15, 2009. The March 1 date is four months before the drilling commitment date. Several factors effect this date, in particular, weather and sea condition. It is possible for the drilling rig to reach the Cook Inlet in as little as 46 days – as stated by the DNR, or delivered to the Cook Inlet as soon as April 16th. The DNR's denial of this contract is not based on facts, evidence, or precedence, it is merely supposition and a pre-determined attitude towards failure.

4. Affidavit to the Division upon the heavy lift vessel's departure.

This is a future requirement, not yet required.

All other arguments made by the DNR in reference to the Default Cure requirements, which have all now been met, are irrelevant and yet another attempt in adding additional onerous requirements and changing the terms of the previous agreement.

Pacific Energy requested, in writing, at the time they submitted the heavy-lift vessel contract to have a meeting with the DNR on a date after November 10, 2008. The DNR made no attempt to have such a meeting – contrary to Acting Director Banks' claims before you as "working with these companies". Instead of having a meeting, he once again waived his arbitrary and capricious heavy-hand and simply denied the contract and any opportunity for a meeting, forcing another round of Commissioner Appeals. If the DNR had heartburns about the heavy-lift vessel contract, or any terms within it, why not talk to the company first and try to come to some resolution? Pacific offered, and apparently all the DNR knows how to do is deny.

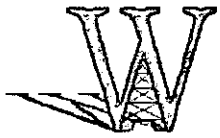
I believe in Pacific Energy and Escopeta Oil. So much so, that I spent tens of thousands of dollars acquiring three offshore Cook Inlet lease tracts. I know the management and expertise in both of these companies, and if they say they can and will bring up a jack-up rig and drill new exploration wells in the Cook Inlet, I believe them, I trust them, and I have spent my own money in support of that trust and belief. The management of DNR does not personally have a stake in this fight. They go home every night, not risking a penny, just their credibility as true public servants.

Something to note, a jack-up rig coming to the Cook Inlet is not just coming to drill the Corsair and Kitchen Units. It will be utilized by virtually every existing and new operating company offshore in the Cook Inlet. It can do step-out drilling and tie back the production to existing platforms, thereby extending their useful and economic life. Three of these platforms are currently light-housed and shut down, just sitting out in the middle of the Cook Inlet rusting – but they could be revived, creating more jobs and revenue to the State. It will bring new companies, exploration and investments to Alaska. We need this, and these two companies have tried hard and spent over a half of a billion dollars getting to where they are right now. They, and Alaska, deserve the chance to prove it.

Now, concerning ExxonMobil and their "approved permits" and subsequent denials on the next step of permits.... Dept. Commissioner Rutherford and Acting Director Banks both said that the DNR always issues "general land use permits", but would deny any "lease-specific permits". I am actually an expert on this issue, and let me say, for the record, you were fed a line of bull.

The permits that allowed ExxonMobil to add gravel to the LEASE site, drill conductor casing into the LEASE, and stage all the equipment necessary on the Lease pad to build an ice road from the Point Thomson end, was issued by the Northern Region of the Division of Mining, Land and Water. This is a Division within the DNR. It has been managed for roughly 20 years by the same gentlemen that I use to work very closely with (Gary Shultz, Leon Lynch and Larry Byrne). In reviewing this application, they would have sent it to the Division of Oil and Gas here in Anchorage – probably to Steven Schmitz, who would have reviewed it and submitted comments, concerns or objections as they would relate to Lease Operation activities.

Rutherford and Banks alluded to the possibility that this sister DNR agency lacked the expertise to adequately understand about what exactly they were approving. Again, you were deliberately being misled. These three gentlemen in the Northern Region of DNR ML&W have been doing primarily oil and gas permitting for over two decades.



They know exactly what conductor pipe is and what is will be used for in the future, the are fully aware that adding gravel to a drill site on a lease is not in any way related to the rehabilitation of a site, they are the experts for the State of Alaska concerning ice road construction and have absolutely do doubt about what equipment is necessary to build an ice road.

Now, the ice road permit that was denied..... it is a general land use permit. In fact, it is so common, that it is already categorically approved under the General Concurrences contained in the "A,B,C List" of the Alaska Coastal Management Program (ACMP) and both the DNR Division of Oil and Gas and the Division of Mining, Land and Water know this.

The fact is, simply, the DNR approved the mobilization of ice road building equipment to a Lease pad, approved the drilling and installation of well conductor casing into the Lease pad, approved the placement of camp and fuel facilities on the Lease pad, and approved the addition of gravel to the Lease pad. Now when ExxonMobil applies for a simple ice road on sea ice, it is denied. This is again, absurd. And, once again, a perfect example of bad-faith negotiating and unnecessary posturing and leveraging.

In closing, I would like to say, in my opinion, having been both on the inside and outside, that the problem with oil and gas permitting and unit actions within the State of Alaska are systemic. Certainly, a portion of the problem is inherent to the current administration and policies handed down from the Commissioner's level through the Director and onward to the staff, but is goes beyond that. Some of the problems that effect development of State resources have been being propagated for years. As just one small example, I have included my comments on the most recent Cook Inlet Areawide Best Interest Finding.

The permitting process needs to be streamlined, the bonding requirements are arbitrary and in a few cases arbitrary, capricious and prejudicial, the Cook Inlet gas market is an oligopoly, and if that isn't bad enough, the DNR itself has an anti-development mentality.

The facts are the facts:

1. There have not been any companies in Alaska over the last 15 years trying to bring up an offshore exploration drilling rig.

2. There are not any other companies sitting on the banks of the Cook Inlet yelling, "I have a drilling rig, give me the leases.

3. There has not been any interest by any company indicating that they are even contemplating coming up to this mess to try and drill and offshore Cook Inlet exploration well.

4. These two companies are promising to get a drilling rig underway to Alaska this spring, with an offshore well drilled by June 30, 2009 (a month after the next Cook Inlet lease sale).

5. The DNR is exerting tortuous interference into these two, and others, corporate business.

6. The behavior of the DNR regarding the non-issuance of the necessary permits and extensions to the Unit agreements and Plans of Exploration smacks of anti-trust, in an effort to restrict major exploration and development and keep the oligopoly and market control that currently exists with the three major producers in the Cook Inlet.

7. If no other company has, is or is willing to try and bring up a jack-up rig to the Cook Inlet, then these two companies, and the people of Alaska, deserve the chance to for them to try.

8. The appointed officials at the DNR are "public servants". I am the public, and I want some service – now, not in another 15 or 20 years.

Respectfully submitted,

Bruce Webb

-Bruce D. Webb

229-8398 cell
522-3237 home
277-1003 office

230-1323 wife's cell (Christy)
244-4548 Twin brother's cell (Brian)

Aurora Gas, LLC
www.aurorapower.com

December 1, 2008

Mr. Greg Curney
Department of Natural Resources
Division of Oil and Gas
550 W. 7th Avenue, Suite 800
Anchorage, AK 99501-3560

RE: Proposed Cook Inlet Areawide Oil and Gas Lease Sale
Preliminary Best Interest Finding of the Director
Dated September 29, 2008

Dear Mr. Curney,

Thank you for the opportunity to comment on this ten-year Best Interest Finding. Having been on both the regulatory side and the industry side of oil and gas permitting, exploration and development for over 20 years, I have identified a few areas of concern. Because the State of Alaska receives over 90% of its revenue directly and indirectly from the oil and gas industry, the permitting process associated with oil and gas exploration projects is of significant statewide importance.

First, the mitigating measures attached with the leas documents and referenced during the permitting process have ambiguities that allow individuals within governmental agencies, who have a somewhat obstructionist attitude, to interpret them in a manner that does not encourage exploration or development. It is essential that ambiguities in regulations and particularly within the lease and mitigating measures documents are replaced with concise language that does not leave the interpretation up to the individual's personal agenda.

In that regard, I will address the mitigation measures of concern first.

Chapter Nine, A. Proposed Mitigating Measures

A. 1. c) This mitigating measure restricts development with certain distances of particular rivers and water bodies. It does not take into consideration existing facilities, such as gravel pads. In this example, if a company wished to drill and exploration well from an existing gravel pad that was within the set back requirements, it would be prohibited in doing so. Despite the fact that the DNR prefers facilities to be consolidated.

This mitigating measure was used as the basis for denying Pelican Hill's exploration plans on the west side of the Cook Inlet, on an existing gravel exploration pad that was connected to the Beluga Highway by an existing gravel access road.

1400 West Benson Blvd., Suite 410 • Anchorage, AK 99503 • (907) 277-1003 • Fax: (907) 277-1006
6051 North Course Drive, Suite 200 • Houston, TX 77072 • (713) 977-5799 • Fax: (713) 977-1347

Yet, the ADF&G was successful in killing this exploration project, which lead to the company giving up on developing the State's resources and leaving. Clearly, it made more sense economically and environmentally to use an existing gravel structure, rather than impacting new environment and expending exploration funding on a location instead of an exploratory well.

In my opinion, this mitigating measure should incorporate the DNR's preference in allowing exploration on existing pads in an effort to encourage exploration and development and consolidate facilities. I suggest revising the sentence in this mitigation measure to read: **"Additionally, with the exception of proposed facilities on existing pads, to the extent practicable, the siting of facilities will be prohibited within one-half mile of..."** This will allow for the continued responsible and environmentally preferable exploration and development of the State's resources.

A. 1. f) This mitigating measure is continually abused by the ADF&G to restrict responsible exploration and development of the State's oil and gas resources. This mitigating measure was established to limit long, linear gravel roads that have a significant surface impact during exploration phases. It was meant to allow gravel pads and airstrips in the Cook Inlet, because exploration is essential to the State of Alaska and the Cook Inlet economy. Because the winter exploration season is shorter, and much more unpredictable, than the North Slope, the use of gravel pads and airstrips is also essential.

In several arguments with the ADF&G, they have erroneously asserted that " ADF&G will not authorize the use of gravel within the Susitna Flats State Game Refuge for Exploration projects." And, "Moreover, as identified in DO&G lease sale mitigating measures for activities within Special Areas, exploration activities must be supported by existing roads and/or ice roads." This has been done without an adequate statement of facts, without the necessary regulatory authority, and with a blatant abuse of power.

The ADF&G's interpretation is not only clearly wrong as to the intent of this mitigating measure, it is also wrong on the grammatical interpretation of the language. I have attached several e-mails with the ADF&G for reference, as well as two University of Alaska Professor's opinions as to what this mitigating measure actually means.

This circumstance is important because the ADF&G blatantly abused their authority by their misinterpretation of the mitigating measures to their advantage and was successful in prohibiting a summer exploration project. The project I am referring to is the Hanna #1 gas exploration well.

This well site is adjacent to the existing gravel Beluga Highway, approximately 5 miles from the coast – separated by thick forest and vegetation. The site is also bounded by the Chugach Electric High Voltage power transmission line to the east, the Enstar gas pipeline to the west, a Chevron tie-in facility to the north and the Chugach Electric power plant a short distance to the south. It is in the heart of the west side (Beluga area) industrial development. Additionally, the surface vegetation at the site is the most common and bountiful found on the west side of the Cook Inlet.

The abuse of authority of the ADF&G must end. They cannot be allowed to constantly interpret the ambiguous language within the mitigating measures, use references out of context, and curtail responsible development of the State's resources, because of their own personal agendas.

I suggest amending the language to read: **"Gravel drill pads, airstrips, and access roads between these drill pads and airstrips are allowed for exploration activities. Roads which are permitted under A. 1. e) above are allowed on a case-by-case basis. All other exploration facilities must be consolidated, temporary and not be constructed of gravel. Use of abandoned gravel structures, including those within ½ mile of the water bodies listed in A. 1. c) above, are also allowed to promote consolidation of facilities and minimize additional surface impacts."**

Chapter Seven, 2. Plan of Operations Approval

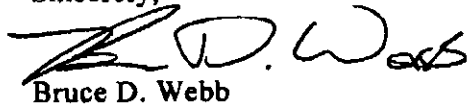
Lease Plan of Operation Approvals are administered under 11 AAC 83.158 and are suppose to regulate activities on the State of Alaska Oil and Gas leases. However, the language in the actual regulation [11 AAC 83.158 (d)(2)] is far-reaching and is used to extend the authority over the lease activity beyond the regulatory purview.

In fact, this language suggests that the Division of Oil and Gas has regulatory authority over DNR Temporary Water-use Permits, Temporary Land-use permits, and even over ADF&G Habitat and Special Areas Permits. Clearly, the expertise and regulatory purview is established within the Division of Mining, Land and Water for land-use and water-use permits, and their review and approval. Additionally, the expertise is clearly vested with the Department of Fish and Game for water withdrawal methods and quantities from anadromous streams.

The ability of the DOG to exercise its authority beyond the lease boundary is contradictory to the Statute and intent of the regulation. This has a resultant effect of unnecessary redundancy and burden on the applicant. Lease Operation Approvals should remain focused on the lease activity, and not on the other activities regulated by other governmental agencies.

Again, thank you for this opportunity to comment. Best of luck in this process.

Sincerely,



Bruce D. Webb
Manager of Land and Regulatory Affairs
Aurora Gas, LLC

Attachments:

E-mail with Valerie Blajeski (ADF&G) 1/3/07 – 1/4/07
E-mail with Mark Fink (ADF&G) 6/5/08 – 6/5/08
Letter to UAA Professor's Cason and Anderson
Opinions of Professor Jackie Cason and Professor Angela Anderson

Bruce D Webb

From: Valerie Blajeski [valerie_blajeski@fishgame.state.ak.us]
Sent: Thursday, January 04, 2007 11:43 AM
To: 'Bruce D. Webb'
Cc: mark_fink@fishgame.state.ak.us
Subject: RE: Hanna Well No. 1

Bruce,
As you know the Susitna Flats State Game Refuge (SFSGR) was established to protect fish and wildlife habitat and populations. Entry upon the SFSGR for purposes of exploration and development of oil and gas resources shall be permitted when compatible with the protection of fish and wildlife habitat. Mitigation Measure 21 states that gravel roads will not be allowed during exploration within Special Areas. Essentially if an operation has alternatives available to it that provide the most minimal impact to the Special Area that alternative is what is permitted. ADF&G is reasonably accommodating Aurora Gas LLC as there are other alternatives to using gravel that will allow the company to proceed as planned.
Based on your reply below, I take it that Aurora Gas LLC has agreed to not use gravel fill for the Hanna No. 1 Well Project.

"GRAVEL PADS & MATS"

In addition, ADF&G requires further clarification on your project summary:
Will Aurora Gas LLC be storing fuel for the drilling rig? –If so what type and how much?
Will this be water-based drilling?
Will any KCL/PHPA fluid be used and/or stored? –If so what type and how much?
How will drill cuttings be dealt with?

Under the Pelican Hill Special Area Permit FG-05-II-0004, Pelican had agreed to stipulations regarding potential project conflicts to the Beluga Pipeline Right-Of-Way. Is Aurora Gas LLC aware of this and is it working with Enstar to minimize potential conflicts?

Valerie E. Blajeski
Habitat Biologist
Alaska Department of Fish and Game
333 Raspberry Road
Anchorage, Alaska 99518
Phone: (907) 267-2300
Fax: (907) 267-2464

From: Bruce D. Webb [mailto:bwebb@aurorapower.com]
Sent: Thursday, January 04, 2007 10:02 AM
To: Valerie Blajeski
Subject: RE: Hanna Well No. 1

Thank you Valerie,

We will be sure our plan reflects your guidance on this issue.

It does seem a bit confusing to me though... I could find nothing in 5AAC95 or the Susitna Flats Management Plan that prohibits the temporary use of gravel for exploration pads. And in this case, its just the portion of the pad adjacent to the existing gravel road that we want to place temporary gravel for the ramp down to the finished ice pad level.

IN fact, 3# and #11 in the Sale 49 Mitigating Measures that were adopted and attached to the SF Management Plan, and #3 and #10 of the most recent Cook Inlet Areawide Mitigating Measures (2005), indicate **permanent** gravel use for exploration pads, airstrips and roads between pads is allowed.

Is there something I am missing somewhere that would help me better understand the ADF&G's hard-line stance on this issue? Your direction to that citing would be greatly appreciated. Don't get me wrong, I'm not arguing... we will build a 4 foot thick snow and ice ramp, and it will probably melt by September... I'm just curious how I missed the authority to prohibit temporary use of gravel after almost 20 years in oil and gas permitting and regulatory compliance.

-Bruce

-----Original Message-----
From: Valerie Blajeski [mailto:valerie_blajeski@fishgame.state.ak.us]
Sent: Thursday, January 04, 2007 8:51 AM
To: 'Bruce D. Webb'; 'Ron Stadem'
Cc: mark_fink@fishgame.state.ak.us; 'Michael S Walker'
Subject: RE: Hanna Well No. 1

Bruce,
ADF&G will not authorize the use of gravel within the Susitna Flats State Game Refuge for exploration projects. This also includes temporary uses as you have described below.

Valerie E. Blajeski
Habitat Biologist
Alaska Department of Fish and Game
333 Raspberry Road
Anchorage, Alaska 99518
Phone: (907) 267-2300
Fax: (907) 267-2464

From: Bruce D. Webb [mailto:bwebb@aurorapower.com]
Sent: Wednesday, January 03, 2007 3:33 PM
To: Valerie Blajeski; 'Ron Stadem'
Cc: mark_fink@fishgame.state.ak.us; 'Michael S Walker'
Subject: RE: Hanna Well No. 1

Hi Valerie,

Would the use of gravel include gravel temporarily placed on Geotextile fabric, over compacted snow and ice, for off road ramp access only? It would be removed with the mats at the end of the drilling program?

Let me know if the **temporary use, not in direct contact with the ground / vegetative surface** is a deal killer, we may be able to use more snow and ice under mats.

-Bruce

-----Original Message-----
From: Valerie Blajeski [mailto:valerie_blajeski@fishgame.state.ak.us]
Sent: Wednesday, January 03, 2007 3:12 PM
To: 'Bruce D. Webb'; 'Ron Stadem'
Cc: mark_fink@fishgame.state.ak.us; 'Michael S Walker'
Subject: Hanna Well No. 1

Bruce,
I am in process of reviewing/drafting Aurora Gas LLC's ADF&G Special Area Permit (SAP) and wanted to notify you that ADF&G will not be authorizing the use of gravel for exploration within Susitna Flats State Game Refuge. Pelican Hill's previous ADF&G SAP FG05-II-0004 states that there will be no gravel fills associated with the exploration project. If you can confirm that Aurora Gas LLC will in fact not be adding any addition gravel for exploration purposes I can continue to complete your ADF&G SAP and have the final product to you shortly. Please feel free to contact me at any time at the number below if you have any further questions.

-Val

Valerie E. Blajeski
Habitat Biologist
[redacted]
Alaska Department of Fish and Game
333 Raspberry Road
Anchorage, Alaska 99518
Phone: (907) 267-2300
Fax: (907) 267-2464

Bruce D Webb

From: Bruce D Webb [bwebb@aurorapower.com]

Sent: Thursday, June 05, 2008 5:51 PM

To: 'Fink, Mark J (DFG)'; 'Delgado-Plikat, Josephina L (DNR)'; 'Rader, Matthew W (DNR)'

Cc: 'G. Scott Pfoff'; 'Ed Jones'; 'pcraig@gci.net'; 'dboelens@aurorapower.com'; 'Taylor, Kenton P (DFG)'; 'Brookover, Thomas E (DFG)'

Subject: RE: Hanna Summer Exploration Drilling Program

Mark,

Thank you for the reply. As you pointed out, the DO&G Mitigating measures do say that exploration actiities must be supported by existing roads (Term #3), which this project most certainly would be. The Mitigating measures (Term #10 and #21 c), as well as the SFSGR Plan also indicate that pads as well as airstrips are permitted to be constructed out of gravel, permanently if necessary. (#10. "**With the exception** of drill pads, airstrips, and roads permitted under Term 3, exploration facilities must be consolidated, temporary and must not be constructed of gravel.") (#10 c. Gravel pads and wellheads are the only above ground structures that will be allowed within the primary waterfowl area above mean high tide within the Susitna Flats SGR...). Please note that Term #3 only discusses gravel roads, and that Term #10 does not say "With the exception of drill pads, airstrips, and roads, permitted under Term 3, ..." The use of a comma, or non-use as it were, after "roads" is significant in that it relates the roads, and not the pads or airstrips to Term #3. With the commas between pads, airstrips, and roads permitted under Term 3, it is the same as saying "with the exception of pads, and the exception of airstrips, and the exception of roads permitted under Term 3"...

Aurora is of the opinion that the activity, the drilling of an exploratory gas well is the same as previously permitted, we agree that the surface preparation being proposed is different, but not believe it is significant enough to warrant another full ACMP review. Deputy Commissioner Taylor and I had discussed this last year and were of the opinion it would be a good test project in the refuge to see if there would in-fact be any impacts to the vegetation. I will complete a new CPQ and Coastal Evaluation for the OPMP and their consideration.

Aurora would be happy to take you, as well as Mr. Rader and Ms. Plikat, on a site visit at your earliest convenience. We appreciate your consideration and willingness to consider this proposal. Thank you for your time, feel free to give me a call when you return to your office.

-Bruce

From: Fink, Mark J (DFG) [mailto:mark.fink@alaska.gov]
Sent: Thursday, June 05, 2008 4:32 PM
To: Bruce D Webb; Delgado-Plikat, Josephina L (DNR); Rader, Matthew W (DNR)
Cc: G. Scott Pfoff; Ed Jones; pcraig@gci.net; dboelens@aurorapower.com; Taylor, Kenton P (DFG); Brookover, Thomas E (DFG)
Subject: RE: Hanna Summer Exploration Drilling Program

Bruce/Jodi/Matt:

I do not consider summer drilling, including the use of a gravel pad, the same project as a winter activity on an ice pad (as was proposed by Pelican). Our coastal review considered winter activities. Moreover, as identified in DO&G lease sale mitigation measures for activities in Special Areas, exploration activities must be supported by existing roads and/or ice roads. Exploration is generally conducted in the winter months to preclude impacts to vegetation and, in primary waterfowl habitat, impacts to wildlife. Winter exploration supported by ice roads and pads has occurred in refuges in Cook Inlet. Although not conducted, the previously permitted Pelican project was a recent example of how ADF&G approaches exploration drilling in Su Flats. Another more recent example of this approach was the proposal by Escopeta for the North Alexander No. 1 Project.

Although winter exploration using ice roads and pads is the preferred approach to precluding impacts to a refuge,

we could consider the use of composite mats, on a case-by-case basis, in areas where it could be demonstrated that the vegetative layer would not be damaged. A site visit would likely be needed.

ADF&G may authorize the use of gravel for roads and/or pads in Special Areas for development and production activities; although gravel roads are precluded from certain areas.

Give me a call if you have questions (267-2338).

Mark Fink
Habitat Biologist
Alaska Department of Fish and Game
333 Raspberry Road
Anchorage, Alaska 99518
Phone 267-2338
Fax 267-2464

From: Bruce D Webb [mailto:bwebb@aurorapower.com]
Sent: Thursday, June 05, 2008 10:39 AM
To: Delgado-Plikat, Josephina L (DNR); Fink, Mark J (DFG); Rader, Matthew W (DNR)
Cc: G. Scott Pfoff; 'Ed Jones'; pcraig@gci.net; dboelens@aurorapower.com; Taylor, Kenton P (DFG)
Subject: Hanna Summer Exploration Drilling Program

Jody,

I received your voicemail regarding your discussions with Mr. Mark Fink of Fish and Game, and your collective non-objection to the summer drilling program proposed by Aurora Gas, LLC (Aurora) in the Susitna Flats State Game Refuge (SFSGR). You have requested that Aurora provide a written statement that indicates all operations as originally proposed by Pelican Hill in their Plan of Operations, as approved, will remain the same during the summer as were proposed during the winter. In the attached letter to Fish and Game, dated May 29, 2008, Aurora expressed: (page two, bottom of paragraph three)

"All procedures within the previously approved plan will be followed with the exception of a temporary gravel pad instead of an ice pad, and summer operations instead of winter operations."

I would like to take this opportunity to state for the record, as requested, that ALL drilling operations will be conducted on the summer temporary gravel pad as were proposed by Pelican Hill originally during the winter on an ice pad. The only exceptions to this will of course be summer operations instead of winter operations, and temporary gravel pad instead of ice pad. As indicated in the recently submitted plan, the gravel pad will be adjacent to the gravel road, thereby eliminating the need for any new gravel access roads.

Additionally, it was requested that in accordance with 5 AAC 95.730, the SFSGR Special Areas Permit (Permit) be issued for a period of TWO YEARS. This is requested because Aurora is currently being purchased by another company and the funding for this well, during this season, is uncertain and may be postponed until next summer. Allowing the Permit to cover a two year period would eliminate the necessity of further extensions, permit renewals or other administrative actions, thereby reducing everyone's work load. There also exists the possibility that the well could be drilled this winter season, as originally proposed for last winter. I would suggest that in the Permit, it would reflect the ability for summer or winter operations, perhaps requiring written notification by Aurora before operations commence. If this is not a viable option, please issue the Permit for the summer operations, and if winter operations become necessary, Aurora will apply for another modification at that time.

Thank you for your expedient review and response to Aurora's request. It is greatly appreciated.

Bruce D. Webb
Manager, Land and Regulatory Affairs

Aurora Gas, LLC
1400 W. Benson Blvd., Suite 410
Anchorage, AK 99503

(907) 277-1003 office
(907) 229-8398 cell
(970) 277-1006 fax

June 18, 2008

Jackie E. Cason, Ph.D.
Department of English
University of Alaska – Anchorage

Ms. Angela S. Anderson, M.A.
Department of English
University of Alaska – Anchorage

Dear Professors Cason and Anderson:

I am the Manager of Land and Regulatory Affairs for a small independent gas exploration and production company in the Cook Inlet region of Alaska. Prior to this position, I had served the State of Alaska in various positions, most recently as a Natural Resource Specialist for the Division of Oil and Gas. My primary focus was on lease administration, permitting and compliance.

Recently, I have had several discussions with former colleagues and other resource agency representatives on the interpretation of language contained in a Department of Natural Resources publication known as the Mitigating Measures. The entire document is attached for your reference.

The specific language I am concerned with is the first sentence in Term #10, below (emphasis added). Term #3 is included for your reference, as it is mentioned in Term #10. These Terms are:

3.* Onshore exploration activities must be supported by air service, an existing road system or port facility, ice roads, or by vehicles which do not cause significant damage to the ground surface or vegetation. Unrestricted surface travel may be permitted by the directors of DO&G and DL, if an emergency condition exists.

Construction of temporary roads may be allowed. Temporary means that a road must be removed to the extent that it is rendered impassable or is otherwise rehabilitated in a manner such that any placed gravel remaining approximates surrounding natural features. Construction of permanent roads will be prohibited during the exploration phase. *Exception - DL.

10.* **With the exception of drill pads, airstrips, and roads permitted under Term 3, exploration facilities must be consolidated, temporary, and must not be constructed of gravel.** Use of abandoned gravel structures may be permitted on an individual basis. *Exception - ADF&G, DL.

In your opinion on the use of the English language, grammar, composition and technical writing, what exactly does the first sentence of Term #10 say? Two opinions exist on the interpretation of this language:

1. Some argue that drill pads and airstrips and roads are only exempted if they are approved under Term #3.

2. While others argue that drill pads are exempted, airstrips are exempted, and roads that are permitted under Term #3 are exempted.

I am of the opinion that the use of the comma between "airstrips" (,) "and roads", as well as the non-use of a comma between "roads" and "permitted" separate drill pads and airstrips from the roads permitted under Term #3. This results in all drill pads and all airstrips being exempted, and not requiring permission under Term #3.

I believe if the intent was to make drill pads and airstrips exempted only if permitted under Term #3, then Term #3 would have listed drill pads and airstrips along with roads, or the first sentence in Term #10 would have read like this:

> "With the exception of drill pads, airstrips and roads, permitted under Term 3, exploration facilities must be consolidated, temporary, and must not be constructed of gravel."

This is an important question, as it effects gas exploration in the Cook Inlet region, where we are experiencing declining natural gas reserves and rising natural gas prices. I believe the intent, having worked in the State Division of Oil and Gas for over a decade, was to allow gravel drill pads and airstrips because the winter exploration season was not cold enough or long enough (as it is on the North Slope) to build and maintain ice pads. Gravel roads for exploration are discouraged because they impact a significantly greater amount of land as long linear gravel structures, and can be perceived by wildlife as barriers to migration.

So, my question to you, if you are able to offer your opinion, is whether or not gravel drill pads and airstrips are exempted in Term #10, and do not require prior permission being granted under Term #3.

I appreciate the time you have taken to read and consider this request. Your opinion will be greatly appreciated. Thank you.

Respectfully yours,

Bruce D. Webb
Manager, Land and Regulatory Affairs
Aurora Gas, LLC.

COOK INLET AREAWIDE 2008
COMPETITIVE OIL AND GAS LEASE SALE

Mitigation Measures and Lessee Advisories

Mitigation Measures

AS 38.05.035(e) and the departmental delegation of authority provide the director, Division of Oil and Gas (DO&G), with the authority to impose conditions or limitations, in addition to those imposed by statute, to ensure that a resource disposal is in the state's best interests. Consequently, to mitigate the potential adverse social and environmental effects of specific selected lease related activities, DO&G has developed mitigation measures and will condition plans of operation, exploration, or development, and other permits based on these mitigation measures.

Under AS 38.05.035(e), ADNR has authority to apply the following mitigation measures developed for this Cook Inlet Areawide lease sale, to all oil and gas activities performed to access the state's leased mineral interest, regardless of the surface ownership status of the land from which the lessee seeks access.

Lessees must obtain approval of a detailed plan of operations from the Director before conducting exploratory or development activities (11 AAC 83.158). An approved plan of operations is the authorization by which DO&G regulates exploration, development, and production activities.

A plan of operations must identify the specific measures, design criteria, and construction methods and standards to be employed to comply with the restrictions listed below. It must also address any potential geophysical hazards that may exist at the site. Plans of operation must comply with coastal zone consistency review standards and procedures established under 6 AAC 50 and 80 including coastal district plans. Applications for required state or federal agency authorizations or permits must be submitted with the plan of operations. DO&G will require, as a condition of consistency approval, such modification or terms as may be necessary to ensure consistency with the ACMP standards.

These measures were developed after considering terms imposed in other Cook Inlet region oil and gas lease sales; fish and wildlife resource and harvest data submitted by ADF&G; environmental data relating to air and water quality, solid and liquid waste disposal, and oil spills submitted by ADEC; consensus items from the Cook Inlet Areawide stakeholders process, as well as comments submitted by the public, local governments, environmental organizations, and other federal, state, and local agencies. Additional project-specific mitigation measures are imposed if and when oil and gas lessees submit proposed plans of exploration, operation, or development.

In addition to compliance with these mitigation measures, lessees must comply with all applicable local, state and federal codes, statutes and regulations, and any subsequent amendments. Lessees must also comply with all current or future ADNR area plans and recreation rivers plans; and ADF&G game refuge plans, critical habitat area plans, and sanctuary area plans within which a leased area is located. Federal, state and local government powers to regulate the oil and gas industry are discussed in the "Governmental powers to Regulate Oil and Gas Exploration, Development, Production, and Transportation" Chapter Eight of this finding. In addition, Appendix B lists federal and state statutes and regulations that apply to lease activities.

Information to lessees relevant to the lease sale is also presented in the "Lessee Advisories," section B, which contain precautions which may apply to post-lease sale activities, and reflect existing local, state, and federal law or policy at the time of the sale.

Hereafter, wherever abbreviations are used they mean: Alaska Coastal Management Program (ACMP), Alaska Department of Environmental Conservation (ADEC), Alaska Department of Fish and Game (ADF&G), Alaska Department of Natural Resources (ADNR), Alaska Oil and Gas Conservation Commission (AOGCC), Areas Meriting Special Attention (AMSA), Director (Director, Division of Oil and Gas), Division of Forestry (DOF), Division of Mining, Land and Water (DMLW), Division of Oil and Gas (DO&G), Division of Parks and Outdoor Recreation (DPOR), Kenai Peninsula Borough (KPB), Municipality of Anchorage (MOA), Matanuska-Susitna Borough (MSB), State Historic Preservation Officer (SHPO), and U.S. Fish and Wildlife Service (USF&WS).

Lessees are advised that portions of the sale area may be subject to special area permits by ADF&G to protect areas designated by the legislature as state game refuges in AS 16.20.010 -AS 16.20.080.

For those mitigation measures and lessee advisories that are within ADNR's authority, the Lessee may request, and the Director of DO&G may grant, exceptions if compliance with the mitigation measure is not feasible or prudent, or an equal or better alternative is offered. Requests and justifications for exceptions must be included in the initial Plan of Operations when one is required. The decision whether to grant an exception will be based on review of the Plan of Operations by the public and in consultation with appropriate state resource agencies. Mitigation measures subject to exceptions are noted with an asterisk (*), followed by the initials of the agency that must be consulted in any decision to grant an exception. Critical habitat areas and state game refuges are jointly managed by ADNR and ADF&G; exceptions to mitigation measures in these areas must be agreed to by both agencies. Agency abbreviations are: ADF&G (Alaska Department of Fish and Game), ADEC (Alaska Department of Environmental Conservation), DL (Division of Lands) and DOF (Division of Forestry).

Except as indicated, the restrictions listed below do not apply to geophysical activity on state land; geophysical exploration is governed by 11 AAC 96.

The following mitigation measures and advisories will be imposed on oil and gas activities in or on all Cook Inlet Areawide leased lands and waterbodies as a condition of the approval of plans of operation. If units are formed with leases issued under different mitigation measures, the most recent measures will most likely be applied to the whole unit.

General

1. Oil and hazardous substance pollution control: In addition to addressing the prevention, detection, and cleanup of releases of oil, contingency plans (C-Plans) for oil and gas extraction operations should include, but not be limited to, methods for detecting, responding to, and controlling blowouts; the location and identification of oil spill cleanup equipment; the location and availability of suitable alternative drilling equipment; and a plan of operations to mobilize and drill a relief well.

2. Use of explosives will be prohibited in open water areas of fishbearing streams and lakes. Explosives must not be detonated beneath, or in close proximity to fishbearing streams and lakes if the detonation of the explosive produces a pressure rise in the waterbody greater than 2.5 pounds per square inch (psi) unless the waterbody, including its substrate, is solidly frozen.

   Explosives must not produce a peak particle velocity greater than 0.5 inches per second (ips) in a spawning bed during the early stages of egg incubation. The minimum acceptable offset from fishbearing streams and lakes for various size buried charges is:

Charge Weight	Distance from Stream
1 pound charge	37 feet (11.2 m)
2 pound charge	52 feet (15.8 m)
5 pound charge	82 feet (25.0 m)
10 pound charge	116 feet (35.4 m)
25 pound charge	184 feet (50.1 m)
100 pound charge	368 feet (112.2 m)

   There are numerous fishbearing streams and lakes within the sale area. Specific information on the location of these waterbodies may be obtained by contacting ADF&G.

3.* Onshore exploration activities must be supported by air service, an existing road system or port facility, ice roads, or by vehicles which do not cause significant damage to the ground surface or vegetation. Unrestricted surface travel may be permitted by the directors of DO&G and DL, if an emergency condition exists.

   Construction of temporary roads may be allowed. Temporary means that a road must be removed to the extent that it is rendered impassable or is otherwise rehabilitated in a manner such that any placed gravel remaining approximates surrounding natural features. Construction of permanent roads will be prohibited during the exploration phase. *Exception - DL.

4. a. Removal of water from fishbearing rivers, streams, and natural lakes shall be subject to prior written approval by DMWM and ADF&G.

   b. Compaction or removal of snow cover overlying fishbearing waterbodies will be prohibited except for approved crossings. If ice thickness is not sufficient to facilitate a crossing, ice and/or snow bridges may be required.

5. Water intake pipes used to remove water from fishbearing waterbodies must be surrounded by a screened enclosure to prevent fish entrainment and impingement. Screen mesh size shall not exceed 0.04 inches unless another size has been approved by ADF&G. The maximum water velocity at the surface of the screen enclosure may be no greater than 0.1 foot per second.

Facilities and Structures

6. a. The siting of onshore facilities, other than docks, or road and pipeline crossings, will be prohibited within 500 feet of all fishbearing streams and lakes. Additionally, siting of facilities will be prohibited within one-half mile of the banks of Harriet, Alexander, Lake, Deep and Stariski creeks, and the Drift, Big, Kustatan, McArthur, Chuitna, Theodore, Beluga, Susitna, Little Susitna, Kenai, Kasilof, Ninilchik and Anchor rivers. New facilities may be sited within the one-half mile buffer if the lessee demonstrates that the alternate location is environmentally preferable, but in no instance will a facility be located within one-quarter mile of the river bank. ADF&G concurrence will be required for siting within the one-half mile buffer. Road and pipeline crossings must be aligned perpendicular or near perpendicular to watercourses.

   b. Lessees will minimize sight and sound impacts for new facilities sited less than one-half mile from river banks and in areas of high recreational use by (1) providing natural buffers and screening to conceal facilities; (2) conducting exploration operations between October 1 and April 30; and (3) using alternative techniques to minimize impacts.

   c. Surface entry will be prohibited in parcels that are within the Kenai River Special Management Area (KRSMA).

   d. Surface entry will be prohibited on state lands within the Kenai National Wildlife Refuge. This term does not limit surface entry on other private lands within the refuge.

   e. Lessees are prohibited from placing drilling rigs and lease-related facilities and structures within an area near the Kenai River composed of: all land within Section 36 in T6N, R11W that is located south of a line drawn from the protracted NE corner to the protracted SW corner of the section; all land within the western half of Section 31 in T6N, R10W and Section 6 in T5N, R10W; and all land within Section 1 in T5N, R11W.

   f. A fresh water aquifer monitoring well with quarterly water quality monitoring should be required down gradient of a permanent storage facility unless alternative acceptable technology is approved by ADEC.

7. The siting of new facilities in key wetlands and sensitive habitat areas should be limited to the extent possible. If facilities are to be located within these areas, the lessee should demonstrate to the satisfaction of the Director and ADF&G that impacts are minimized through appropriate mitigation measures.

8.* Measures will be required by the Director, after consultation with ADF&G and ADEC, to minimize the impact of industrial development on key wetlands. Key wetlands are those wetlands that are important to fish, waterfowl, and shorebirds because of their high value or scarcity in the region or that have been determined to function at a high level using the hydrogeomorphic approach. Lessees must identify on a map or aerial photograph the largest surface area, including reasonably foreseeable future expansion areas, within which a facility is to be sited, or an activity will occur. The map or photograph must accompany the plan of operations. DO&G will consult with ADF&G and ADEC to identify the least sensitive areas within the area of interest. To minimize impacts, the lessee must avoid siting facilities in the identified sensitive habitat areas. *Exception - ADF&G, ADEC.

9.* Impermeable lining and diking, or equivalent measures such as double-walled tanks, will be required for onshore oil storage facilities (with a total above ground storage capacity greater than 1,320 gallons, provided no single tank capacity exceeds 660 gal) and for sewage ponds. Additional site-specific measures may be required as determined by ADNR, with the concurrence of ADEC, and will be addressed in the existing review of project permits or oil spill contingency plans (C-Plans).

Buffer zones of not less than 500 feet will be required to separate onshore oil storage facilities and sewage ponds from marine waters and freshwater supplies, streams and lakes, and key wetlands. Sumps and reserve pits must be impermeable and otherwise fully contained through diking or other means. *Exception - ADF&G, ADEC.

10.* With the exception of drill pads, airstrips, and roads permitted under Term 3, exploration facilities must be consolidated, temporary, and must not be constructed of gravel. Use of abandoned gravel structures may be permitted on an individual basis. *Exception - ADF&G, DL.

11. a. Wherever possible, onshore pipelines must utilize existing transportation corridors and be buried where soil and geophysical conditions permit. In areas where pipelines must be placed above ground, pipelines must be sited, designed and constructed to allow free movement of moose and caribou.

b. Offshore pipelines must be located and constructed to prevent obstructions to marine navigation and fishing operations.

c. Pipelines must be located upslope of roadways and construction pads and must be designed to facilitate the containment and cleanup of spilled hydrocarbons. Pipelines, flowlines, and gathering lines must be designed and constructed to assure integrity against climatic conditions, tides and currents, and other geophysical hazards.

Local Hire

12. To the extent they are available and qualified, the lessee is encouraged to employ local and Alaska residents and contractors for work performed on the leased area. Lessees shall submit, as part of the plan of operations, a proposal detailing the means by which the lessee will comply with the measure. The proposal must include a description of the operator's plans for partnering with local communities to recruit and hire local and Alaska residents and contractors. The lessee is encouraged, in formulating this proposal, to coordinate with employment services offered by the state of Alaska and local communities and to recruit employees from local communities.

Training

13. Lessee must include in any plan of exploration or plan of development, a training program for all personnel, including contractors and subcontractors, involved in any activity. The program must be designed to inform each person working on the project of environmental, social, and cultural concerns which relate to the individual's job.

The program must employ effective methods to ensure that personnel understand and use techniques necessary to preserve geological, archeological, and biological resources. In addition, the program must be designed to help personnel increase their sensitivity and understanding of community values, customs, and lifestyles in areas where they will be operating.

Access

14. a. Public access to, or use of, the leased area may not be restricted except within 1,500 feet (457 m) or less of onshore drill sites, buildings, and other related structures. Areas of restricted access must be identified in the plan of operations.

b. No lease facilities or operations may be located so as to block access to or along navigable and public waters as defined at AS 38.05.965(13) and (17).

15. Lease-related use will be restricted when the commissioner determines it is necessary to prevent unreasonable conflicts with local subsistence harvests and commercial fishing operations. In enforcing this term the division, during review of plans of operation or development, will work with other agencies and the public to assure that potential conflicts are identified and avoided. In order to avoid conflicts with fishing activities, restrictions may include alternative site selection, requiring directional drilling, seasonal drilling restrictions, subsea completion techniques, and other technologies deemed appropriate by the commissioner.

Prehistoric, Historic, and Archeological Sites

the Department of English @ UAA

UAA UNIVERSITY of ALASKA ANCHORAGE

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Course Offerings

Department of English
University of Alaska Anchorage
3211 Providence Drive PSB 208
Anchorage, AK 99508-4614

(907) 786-4356
(907) 786-4356 (fax)

The Writing Center
Sigma Tau Delta | Pac-Rim
Utopian Studies

Jackie Cason

[faculty : home]

Assistant Professor
Office Location: PSB 208B
Phone: 786-4367
afjec1@uaa.alaska.edu

Jacqueline Cason received her Ph.D. in English from the University of Arkansas in Fayetteville, where her dissertation examined history of science essays by Loren Eiseley. She has taught courses in the evolution of the essay genre, nonfiction prose, public science writing, technical and scientific writing, first-year composition, persuasive writing, and advanced composition. Her research interests include the rhetoric of science in professional and public contexts, landscape writing, Canadian nonfiction writing, multimedia forms of the essay, and digital literacies in first-year composition. Cason is a UAA Technology Fellow and is currently developing a web-text on composing controversy with a radio broadcast.

Questions or Comments | Contact Us

Bruce D Webb

From: Jacqueline Cason [jackiecason@gmail.com]
Sent: Tuesday, June 17, 2008 10:52 PM
To: Bruce D Webb
Subject: Re: Question on interpretation of written language and grammar

Dear Mr. Webb,

Few people find grammar intrinsically interesting, but many eventually discover that it can be instrumental to interpretation. I find it both interesting and instrumental, so I am intrigued by your question.

Clearly, we can say that the sentence has some ambiguity, as most language does, and the ambiguity arises from the question of what the participial phrase "permitted under Term 3" modifies. You have already identified the two possibilities. It may modify the list of three items, or it may modify only the final item in the list.

When we teach grammar and style to students, we offer two suggestions (relevant in this case) for minimizing ambiguity--1) place the modifier as close to the thing it modifies as possible, and 2) retain the comma after each item in a list, unless the writer intends the last two items to be more closely linked. In the first case, the modifier comes at the end and closest to the final item, encouraging us to see the final item as the only exemption under Term 3. In the second case, some writers see that final comma as optional, but as you've pointed out, if you leave off the comma, then the last two items become a unit rather than separate items in a list. With all commas present, we could see the final item as the only item modified.

As part of our examination, we should ask ourselves how a writer might compose that sentence to modify all three items unambiguously. The writer could have written "With the exception of **items permitted under Term 3--drill pads, airstrips, and roads**--exploration facilities must be consolidated, temporary, and must not be constructed of gravel." (Emphasis added to my change). That would have made the meaning clear in terms of the first interpretation that all items exempted must be approved under Term 3.

I tend to agree with the second interpretation of the meaning of the sentence, though my reasoning is a bit more contextual than grammatical. I know that not all writers are careful about modifier placement, even when other options are available, and that not all writers subscribe to the so-called "Oxford comma" rule. Therefore, I cannot rely strictly on grammatical analysis here and must examine the meaning of the sentence in a broader context. I therefore draw on the third item you have provided because it mentions neither airstrips nor drill pads. Rather, it focuses explicitly and exclusively on roads and purposefully defines "temporary" in relation to roads. Also, if we go back to the first part of Term 3, we read that onshore exploration *must* be supported by air service.... The whole point seems to be to minimize permanent damage and prevent further road development. Air strips and air service help minimize the permanent damage by making roads less necessary, and I don't imagine that airstrips are as likely to be temporary anyway. When roads are exempted, they need to be temporary, which is probably why ice roads are part of the list. That is why the second part of Term three focuses strongly on the definition of what "temporary" means in relation to roads. By examining Term 3 and Term 10 side by side, I would conclude that surface travel is the

most destructive in terms of permanent change to the environment. Hence, air travel and the strips that make it possible are preferable. Also, the drill pads, which are part of the exploration activity itself, are never mentioned again. I searched the remainder of the document for both airstrips and drill pads and did not find further mention. The document as a whole seems much more concerned by surface roads and seems to want to minimize any new permanent roads.

That's probably a longer explanation than you need, but you asked for some reasoning, and I thank you for offering up the context that makes such an interpretation possible. In isolation, I'd have to say the sentence is simply ambiguous and could go either way, but in context I am fairly confident that Term 3 approval applies only to roads, not airstrips or drill pads.

If you have further questions, feel free to ask.

~Jackie Cason

In your opinion on the use of the English language, grammar, composition and technical writing, what exactly does the first sentence of Term #10 say? Two opinions exist on the interpretation of this language:

1. Some argue that drill pads and airstrips and roads are only exempted if they are approved under Term #3.

2. While others argue that drill pads are exempted, airstrips are exempted, and roads that are permitted under Term #3 are exempted.

I am of the opinion that the use of the comma between "airstrips" (,) "and roads", as well as the non-use of a comma between "roads" and "permitted" separate drill pads and airstrips from the roads permitted under Term #3. This results in all drill pads and all airstrips being exempted, and not requiring permission under Term #3.

On Tue, Jun 17, 2008 at 5:32 PM, Bruce D Webb <bwebb@aurorapower.com> wrote:

Dear Dr. Cason,

Attached is a letter requesting your opinion on the meaning of a sentence contained in a technical document. Your review and opinion would be greatly appreciated. The request is attached as a MSWord document. The PDF attachment is the entire referenced technical document.

If you are willing to offer your opinion, please include a brief explanation of your reasoning. Thank you for your time and consideration.

Sincerely,

Division of Oil & Gas

Alaska Department of Natural Resources

Sale Results Summary

North Slope Areawide 2008

Date of Sale: 10/22/2008

Bidding Method: Cash Bonus Bid, Fixed Royalty

Preliminary Report

10/22/2008

Total Tracts Sold: 60

Total Acres Sold: 214,400.00

Min Bid Per Acre: $10.00

Royalty %: 12.50000%
16.66667%

Highest Bid: $783,027.20
Tract Number: 1211
Submitted By: Pioneer Natural Resources Alaska Inc

Total Number of Valid Bids: 72

Total High Bonus Bids: $6,531,488.00

Total Exposed (Sum Of All Valid Bids): $7,459,027.20

Average High Bonus Bid Per Acre: $36.49

Highest Bid/Acre: $305.87
Tract Number: 1211
Submitted By: Pioneer Natural Resources Alaska Inc

Bidder Company or Group Name	Number of Tracts Bid	Total of All Bids	Number of Tracts Won	Total of High Bids
AVCG, LLC 100.00000%	4	$128,000.00	1	$45,440.00
70 & 148, LLC 100.00000%	51	$5,470,995.20	49	$5,032,364.80
J ANDREW BACHNER 100.00000%	3	$78,873.60	2	$52,582.40
SAVANT ALASKA LLC 100.00000%	1	$27,673.60	1	$27,673.60
PIONEER NATURAL RESOURCES ALASKA INC 100.00000%	3	$1,020,441.60	1	$783,027.20
FEX L.P. 100.00000%	6	$590,400.00	6	$590,400.00
V PAUL GAVORA 50.00000%; NICK STEPOVICH 25.00000%; DANIEL R GILBERTSON 25.00000%	4	$142,643.20	0	0

Printed on 10/23/2008

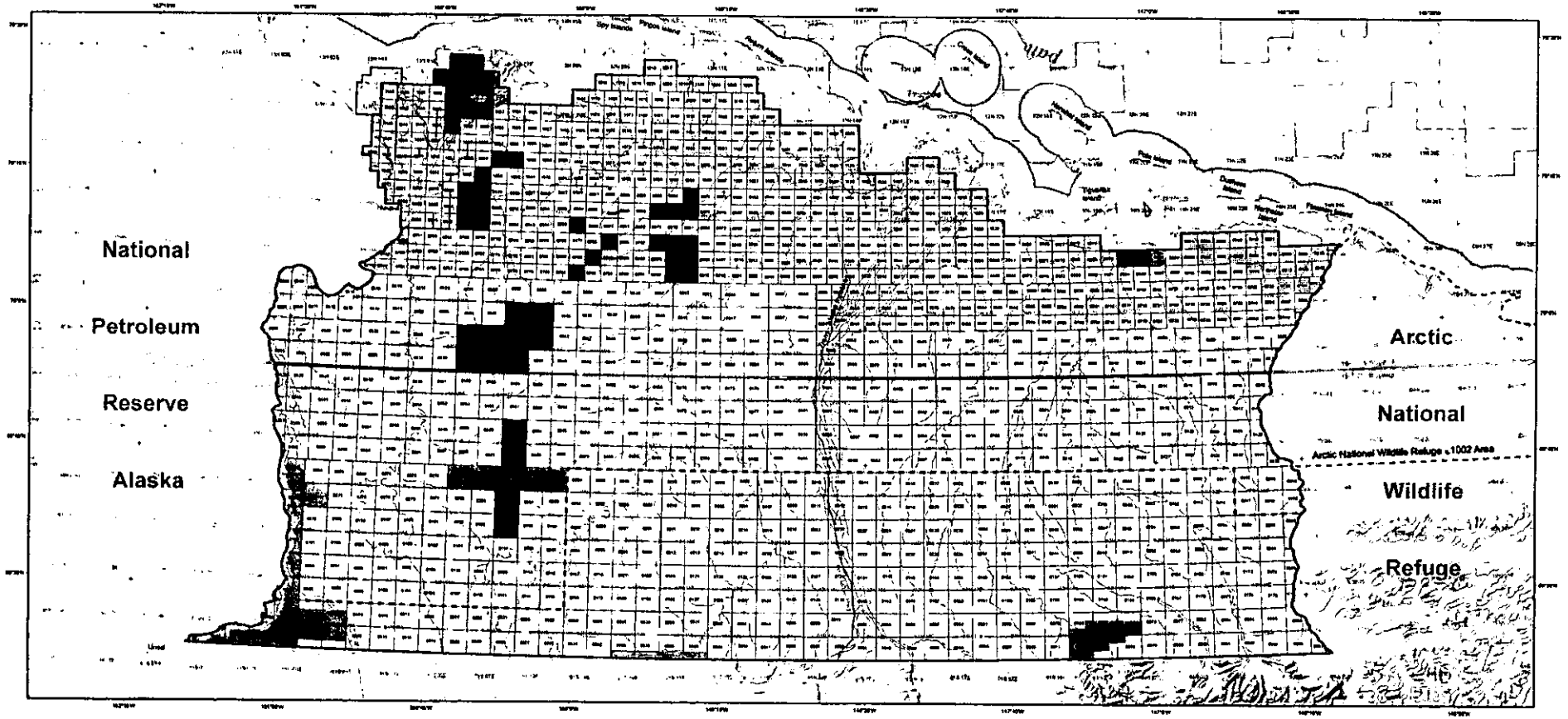
State of Alaska
Department of Natural Resources
Division of Oil & Gas

Oil and Gas Lease Sale
North Slope Areawide 2008

North Slope Areawide
Tract Map
September 05, 2008

Preliminary Sale Results

Preliminary Sale Results



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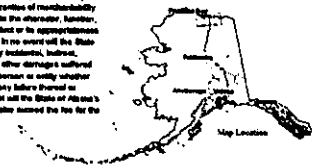


Bidders are solely responsible for determining the availability of acreage prior to submitting a bid.

Apparent High Bidders

- J Andrew Bachner
- 70 & 148, LLC
- FEX L. P.
- Savant Alaska LLC
- Pioneer Natural Resources Alaska
- AVCG, LLC

State of Alaska
Department of Natural Resources
Division of Oil and Gas

Scale 1:375,000

Preliminary Sale Results

Legend

DATA SOURCES

Base map data, including hydrologic data, village and town locations, land status and boundaries, etc. are from the State of Alaska Statewide Land Records Information Systems GIS database. Oil and gas wells are from the Alaska Division of Oil and Gas database as adapted from the Alaska Oil and Gas Conservation Commission dataset. Land status is derived from the Federal Bureau of Land Management's general land status dataset.

Information on this map is depicted only at a township or section level resolution. For detailed information regarding any specific area, interested individuals may consult the land records of one or more of the following agencies:

The State of Alaska, Dept. of Natural Resources
The Federal Bureau of Land Management
The Federal Minerals Management Service
Arctic Slope Regional Corporation

Discrepancies in boundary alignments are the result of merging multiple data sets from a number of different sources.

October 23, 2008

1876

Division of Oil & Gas

Alaska Department of Natural Resources

Sale Results Summary

Beaufort Sea Areawide 2008

Date of Sale: 10/22/2008

Bidding Method: Cash Bonus Bid, Fixed Royalty

Preliminary Report

10/22/2008

Total Tracts Sold: 32

Total Acres Sold: 99,200.00

Min Bid Per Acre: $10.00

Royalty %: 12.50000%
16.66667%

Highest Bid: $374,195.20
Tract Number: 414
Submitted By: 70 & 148, LLC

Total Number of Valid Bids: 38

Total High Bonus Bids: $2,614,784.00

Total Exposed (Sum Of All Valid Bids): $2,891,827.20

Average High Bonus Bid Per Acre: $28.97

Highest Bid/Acre: $146.17
Tract Number: 414
Submitted By: 70 & 148, LLC

Bidder Company or Group Name	Number of Tracts Bid	Total of All Bids	Number of Tracts Won	Total of High Bids
AVCG, LLC 100.00000%	4	$153,600.00	2	$83,200.00
SUN-WEST OIL & GAS, INC. 67.50000%; SHANE SPEAR 10.00000%; MICHAEL SHEARN 22.50000%	1	$52,281.60	1	$52,281.60
DANIEL K DONKEL 25.00000%; SAMUEL H CADE 75.00000%	5	$280,992.00	5	$280,992.00
70 & 148, LLC 100.00000%	20	$1,887,315.20	19	$1,861,689.60
BP EXPLORATION (ALASKA) INC 26.36056%; CONOCOPHILLIPS ALASKA, INC. 36.07675%; EXXONMOBIL ALASKA PRODUCTION INC 36.40269%; CHEVRON U.S.A. INC. 1.16000%	1	$150,048.00	1	$150,048.00
J ANDREW BACHNER 100.00000%	2	$52,582.40	2	$52,582.40
SAVANT ALASKA LLC 100.00000%	2	$55,347.20	1	$27,673.60
J ANDREW BACHNER 90.00000%; KEITH C FORSGREN 10.00000%	1	$94,796.80	0	0
CONOCOPHILLIPS ALASKA, INC. 100.00000%	1	$106,316.80	1	$106,316.80

PIONEER NATURAL RESOURCES ALASKA INC 100.00000%	1	$58,547.20	0	0

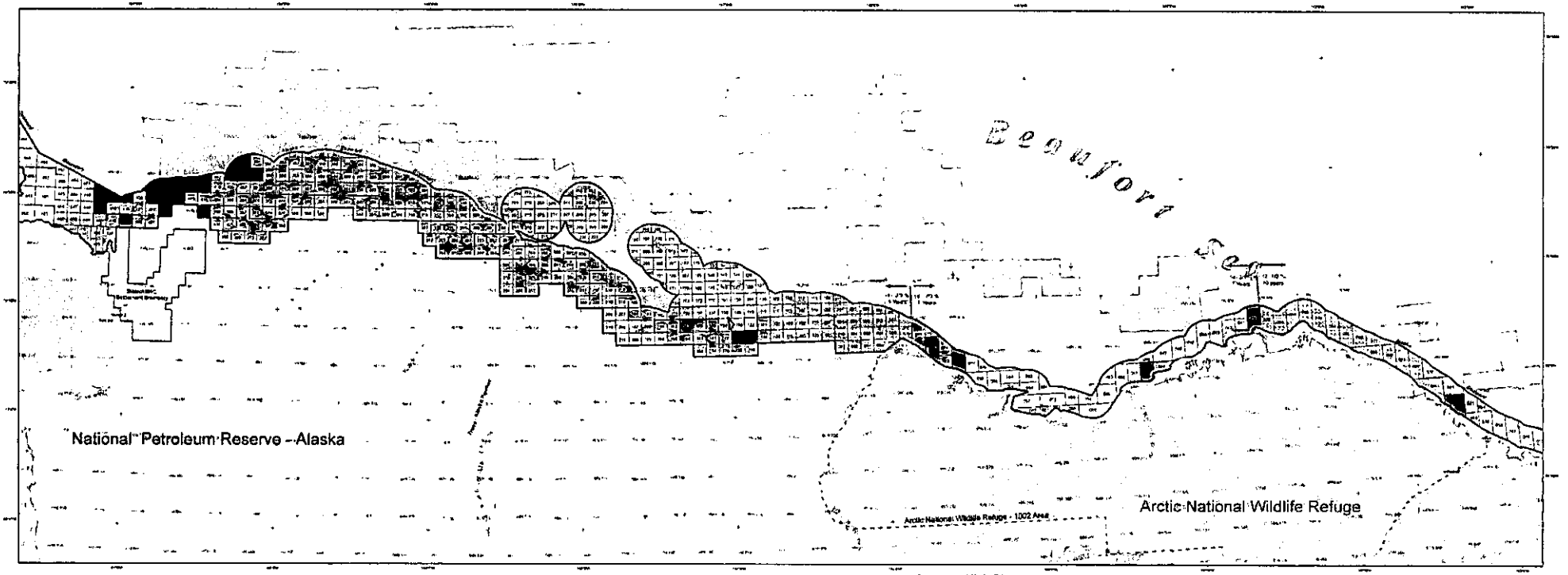
State Of Alaska
Department of Natural Resources
Division of Oil & Gas

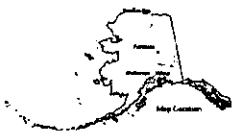
Preliminary Sale Results

Oil and Gas Lease Sale
Beaufort Sea Areawide 2008
Bids Received

Preliminary Sale Results

Beaufort Sea Areawide
Tract Map - Bids Received
September 9, 2008





Preliminary Sale Results

State of Alaska
Department of Natural Resources
Division of Oil and Gas

Scale 1:322,549

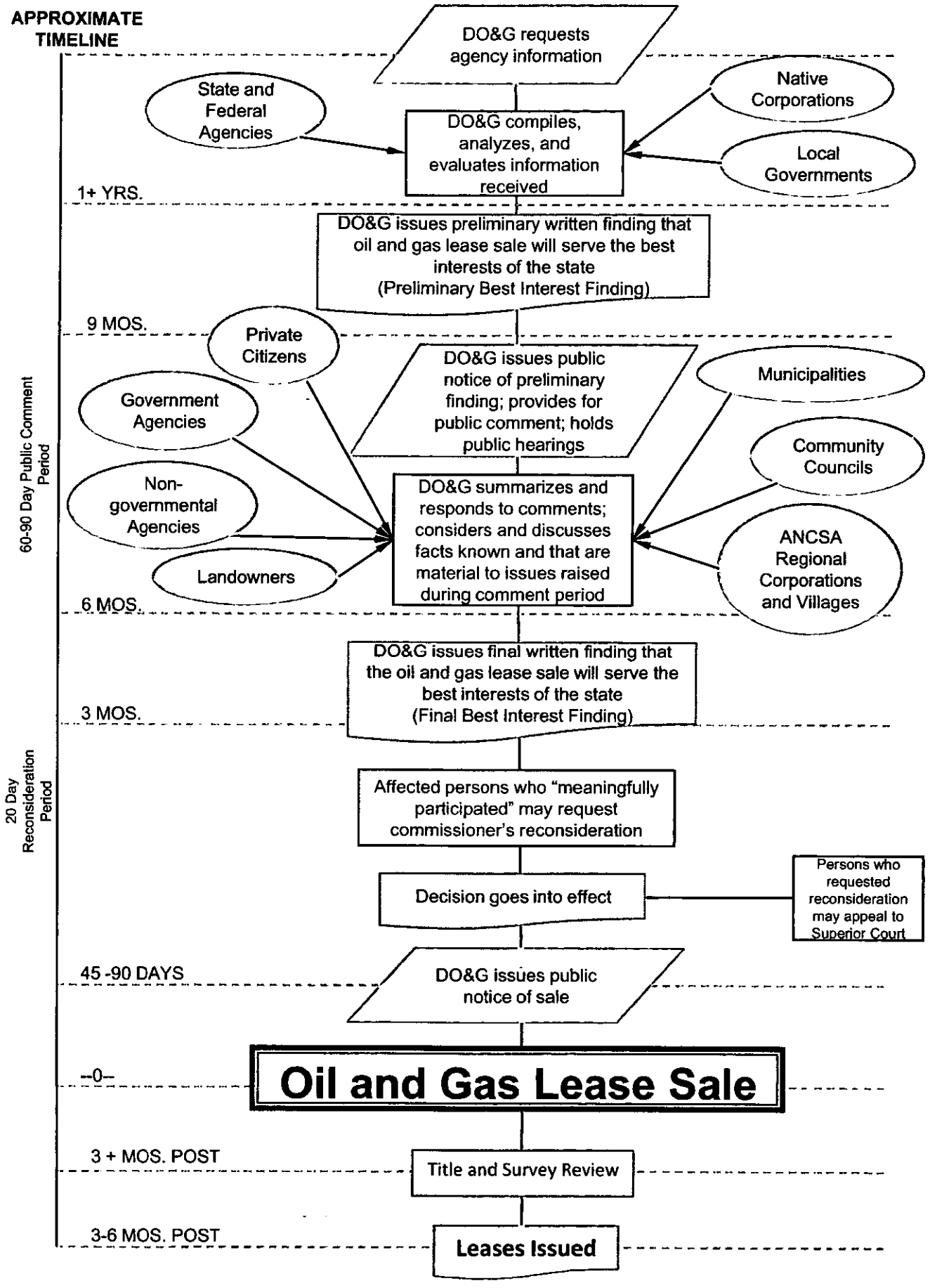
Apparent High Bidders

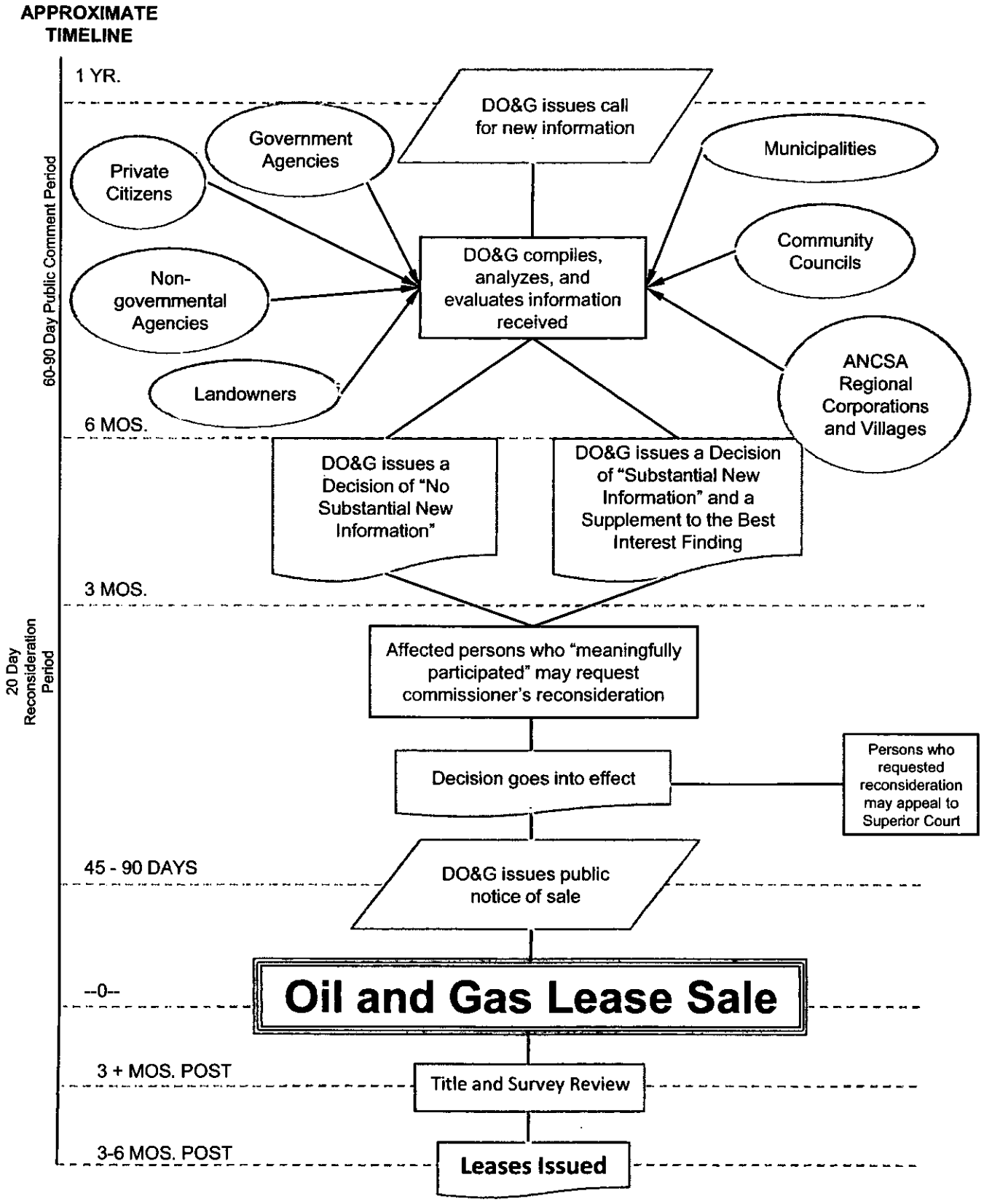
- ConocoPhillips Alaska, Inc.
- 70 & 148, LLC
- BP CP EXX CHEV
- Savant Alaska LLC
- J Andrew Bachner
- AVCG, LLC
- Daniel K Donkel
- Sun-West Oil & Gas, Inc.

Legend

Data Sources

October 23, 2008


APPROXIMATE TIMELINE
DO&G requests agency information
State and Federal Agencies
Native Corporations
DO&G compiles, analyzes, and evaluates information received
Local Governments
1+ YRS.
DO&G issues preliminary written finding that oil and gas lease sale will serve the best interests of the state (Preliminary Best Interest Finding)
9 MOS.
Private Citizens
DO&G issues public notice of preliminary finding; provides for public comment; holds public hearings
Municipalities
Government Agencies
Community Councils
Non-governmental Agencies
DO&G summarizes and responds to comments; considers and discusses facts known and that are material to issues raised during comment period
ANCSA Regional Corporations and Villages
Landowners
6 MOS.
60-90 Day Public Comment Period
DO&G issues final written finding that the oil and gas lease sale will serve the best interests of the state (Final Best Interest Finding)
3 MOS.
Affected persons who "meaningfully participated" may request commissioner's reconsideration
20 Day Reconsideration Period
Decision goes into effect
Persons who requested reconsideration may appeal to Superior Court
45 -90 DAYS
DO&G issues public notice of sale
--0--
Oil and Gas Lease Sale
3 + MOS. POST
Title and Survey Review
3-6 MOS. POST
Leases Issued


APPROXIMATE TIMELINE
1 YR.
DO&G issues call for new information
Government Agencies
Private Citizens
Municipalities
Community Councils
Non-governmental Agencies
DO&G compiles, analyzes, and evaluates information received
Landowners
ANCSA Regional Corporations and Villages
60-90 Day Public Comment Period
6 MOS.
DO&G issues a Decision of "No Substantial New Information"
DO&G issues a Decision of "Substantial New Information" and a Supplement to the Best Interest Finding
3 MOS.
20 Day Reconsideration Period
Affected persons who "meaningfully participated" may request commissioner's reconsideration
Decision goes into effect
Persons who requested reconsideration may appeal to Superior Court
45 - 90 DAYS
DO&G issues public notice of sale
--0--
Oil and Gas Lease Sale
3 + MOS. POST
Title and Survey Review
3-6 MOS. POST
Leases Issued

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF MINING, LAND AND WATER

SARAH PALIN, GOVERNOR

DIRECTOR'S OFFICE
550 W. 7th AVE., SUITE 1070
ANCHORAGE, ALASKA 99501-3579

PHONE (907) 269-8600
FAX (907) 269-8904

December 23, 2008

The Honorable Craig Johnson
Co-Chair, House Resources Committee
716 W 4th Ave
Anchorage, AK 99501

Re: ExxonMobil Land Use Permit for Point Thomson #3 pad

Dear Representative Johnson:

I understand that at the December 1 joint meeting of the House Resources and Judiciary Committees, an issue was raised concerning the Division of Mining, Land and Water's (DMLW) land use permit (LAS 26895) issued to ExxonMobil Corporation. At the December 1 hearing, Craig Haymes of ExxonMobil Corporation testified that the "drilling operations" ExxonMobil was conducting on the Point Thomson # 3 pad were authorized by a land use permit (LUP) issued by the Division of Mining, Land and Water. This is not correct.

The DMLW land use permit was issued for surface use only. DMLW does not regulate oil and gas drilling operations, including the placement of conductors. The LUP issued to ExxonMobil is for the purpose stated below:

> Staging of equipment, fuel, and camp at the Point Thomson Unit #3 Exploration Pad. The activity includes maintenance of the pad, with the possible placement of additional gravel within the existing pad footprint.

A copy of the permit is attached.

The LUP application submitted to DMLW likewise did not request approval of any drilling operations. When the permit was issued, ExxonMobil was notified that the permit was not a modification of DNR's position in the unit litigation. That notice is in the permit itself and the cover letter issued with the permit.

The Division of Mining, Land and Water does not issue any permits authorizing oil and gas drilling operations. It is the Division of Oil and Gas that has authority over all subsurface oil and gas development activity. A representative of DMLW inspected the site on December 4, 2008 to follow up on the testimony. A few violations were noted, and we are working with ExxonMobil to have those

corrected. A copy of the letter sent to ExxonMobil after the inspection is also attached.

I appreciate the opportunity to clarify the record.

Sincerely,

Dick Mylius
Director, Division of Mining, Land and Water

Cc: Tom Irwin, Commissioner, Department of Natural Resources
Marty Rutherford, Deputy Commissioner, DNR
Kevin Banks, Director, DNR Division of Oil and Gas
Craig Haymes, ExxonMobil Corporation

STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF MINING, LAND AND WATER

NORTHERN REGION
3700 AIRPORT WAY
FAIRBANKS, ALASKA 99709-4699
PHONE: (907) 451-2740
FAX: (907) 451-2751

July 7, 2008

Robert Dragnich
Exxon Mobil Corporation
PO Box 196601
Anchorage, Alaska 99503

Reference: LAS 26895
Pt. Thomson 3 Equipment Staging

Dear Mr. Dragnich:

Enclosed is your signed copy of the Land Use Permit for staging a camp, ice road construction equipment, and fuel at the Pt. Thomson 3 Pad.

Again, please note that the permit contains several conditions that are specific to the current legal issues involving Exxon Mobil and the Point Thomson Unit. These conditions are as follows:

22. Issuance of this permit does not mean DNR has changed its position on the status of the unit or leases,

23. DNR is not waiving any aspect of its PTU decisions;

24. Permittee does this work at its own risk.

If you have any questions regarding this permit, please give us a call.

Sincerely,

Gary Schultz
Natural Resource Manager

Cc: Nan Thompson, DO&G
Steve Schmitz, DO&G
Jack Winters, DNR, OHMP
Ben Greene, NSB

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

STATE OF ALASKA
Department of Natural Resources
Division of Mining, Land & Water

LAND USE PERMIT
Under AS 38.05.850

PERMIT # LAS 26895

Exxon Mobil Corporation, herein known as the Permittee, is issued this permit authorizing the use of state land for storage activities, including the following location:

Section 34, Township 10 North, Range 23 East, Umiat Meridian, located in the North Slope Borough, as shown on the attached map.

This permit is effective beginning **July 1, 2008** and ending **December 31, 2009** unless sooner terminated at the state's discretion. This permit does not convey an interest in state land and as such is revocable with or without cause. No preference right for use or conveyance of the land is granted or implied by this authorization.

This permit is issued for the purpose of:

Staging of equipment, fuel, and camp at the Point Thomson Unit #3 Exploration Pad. The activity includes maintenance of the pad, with the possible placement of additional gravel within the existing pad footprint.

All activities shall be conducted in accordance with the following **General and Special Stipulations.**

General and Special Stipulations

1. **Authorized Officer.** The Authorized Officer for the Department of Natural Resources is the Regional Manager. The Authorized Officer may be contacted at 3700 Airport Way, Fairbanks, Alaska 99709 or (907) 451-2740. The Authorized Officer reserves the right to modify these stipulations or use additional stipulations as deemed necessary.

2. **Development Plan** The development of the site authorized by this permit shall be limited to the area and improvements specified in the development plan dated June 12, 2008. The permittee is responsible for accurately siting development and operations within this area. Any proposed revisions to the development plan must be approved in writing by the Authorized Officer before the change in use or development occurs.

3. **Compliance with Governmental Requirements; Recovery of Costs.** Permittee shall, at its expense, comply with all applicable laws, regulations, rules and orders, and the requirements and stipulations included in this authorization. Permittee shall ensure compliance by its employees, agents, contractors, subcontractors, licensees, or invitees.

4. **Indemnification.** Permittee assumes all responsibility, risk and liability for its activities and those of its employees, agents, contractors, subcontractors, licensees, or invitees, directly or indirectly related to this permit, including environmental and hazardous substance risk and liability, whether accruing during or after the term of this permit. Permittee shall defend, indemnify, and hold harmless the State of Alaska, its agents and employees, from and against any and all suits, claims, actions, losses, costs, penalties, and damages of whatever kind or nature, including all attorney's fees and litigation costs, arising out of, in connection with, or incident to any act or omission by Permittee, its employees, agents, contractors, subcontractors, licensees, or invitees, unless the proximate cause of the injury or damage is the sole negligence or willful misconduct of the State or a person acting on the State's behalf. Within 15 days, Permittee shall accept any such cause, action or proceeding upon tender by the State. This indemnification shall survive the termination of the permit.

5. **Valid Existing Rights.** This authorization is subject to all valid existing rights in and to the land under this authorization. The State of Alaska makes no representations or warranties whatsoever, either expressed or implied, as to the existence, number, or nature of such valid existing rights.

6. **Reservation of Rights.** The Department of Natural Resources reserves the right to grant additional authorizations to third parties for compatible uses on or adjacent to the land under this authorization which do not unreasonably interfere with Permittee's authorized uses.

7. **Performance Guaranty.** The Permittee shall provide a surety bond or other form of security acceptable to the Division in the amount of $175,000 payable to the State of Alaska. Such performance guaranty shall remain in effect for the term of this authorization and shall secure performance of the Permittee's obligations hereunder. The amount of the performance guaranty may be adjusted by the Authorized Officer upon approval of amendments to this authorization, changes in the development plan, upon any change in the activities conducted or performance of operations conducted on the premises. If Permittee fails to perform the obligations under this permit within a reasonable time, the State may perform Permittee's obligations at Permittee's expense. Permittee agrees to pay within 20 days following demand, all costs and expenses reasonably incurred by the State of Alaska as a result of the failure of the Permittee to comply with the terms of this permit. The provisions of this permit shall not prejudice the State's right to obtain a remedy under any law or regulation. If the authorized officer determines that the Permittee has satisfied the terms and conditions of this authorization the performance guaranty may be released. The performance guaranty may only be released in a writing signed by the Authorized Officer.

8. **Assignment.** This permit may be transferred or assigned with prior written approval from the Authorized Officer.

9. **Inspection.**

   a) Authorized representatives of the State of Alaska shall have reasonable access to the subject parcel for purposes of inspection.

b) The Permittee may be charged fees under 11 AAC 05.010(a)(7)(M) for reasonable routine inspections of the subject parcel, inspections concerning non-compliance, and a final close-out inspection.

10. **Violations.** This authorization is revocable immediately upon violation of any of its terms, conditions, stipulations, nonpayment of fees, or upon failure to comply with any other applicable laws, statutes and regulations (federal and state). Should any unlawful discharge, leakage, spillage, emission, or pollution of any type occur due to Permittee's, or its employees', agents', contractors', subcontractors', licensees', or invitees' act or omission, Permittee, at its expense shall be obligated to clean the area to the reasonable satisfaction of the State of Alaska.

11. **Use Fee.**

a. The permittee shall pay to the Division an annual use fee of $31,976.72 without the necessity of any billing by the Division. The use fee for the period of July 1 through December 31, 2009 may be paid on a prorated basis.

b. The use fee is due on or July 1, 2008, and annually thereafter without the necessity of any billing by the Division.

12. **Late Payment Penalty Charges.** If the required use fee is not received by the State by the 10th day of the month when due, the Permittee shall pay a late fee for any late payment. The amount of the late fee is the greater of either the fee specified in 11 AAC 05.010 or interest calculated from the due date at the rate set by AS 45.45.010(a) and will be assessed on a past-due account until payment is received by the state.

13. **Returned Check Penalty.** A returned check fee as provided in 11 AAC 05.010 will be assessed for any check on which the bank refuses payment. Late payment penalties shall continue to accumulate.

14. **Site Maintenance.** The area subject to this authorization shall be maintained in a neat, clean and safe condition, free of any solid waste, debris or litter, except containerized or otherwise legally stored.

15. **Notification.** The Permittee shall notify the Department of Natural Resources of all spills that must be reported under 18 AAC 75.300 under timelines of 18.AAC 75.300. All fires and explosions must be reported to DNR immediately. The DNR 24 hour spill report number is (907) 451-2678; the fax number is (907) 451-2751. The DEC oil spill report number is (800) 478-9300. DNR and DEC shall be supplied with all follow-up incident reports.

16. **Storage of Equipment.** The site shall be protected from leaking or dripping hazardous substances or fuel from equipment and vehicles. The Permittee shall place drip pans or other surface liners designed to catch and hold fluids under the equipment or develop an area for storage using an impermeable liner or other suitable containment mechanism.

17. **Fuel and Hazardous Substances.** Secondary containment shall be provided for fuel or hazardous substances.

a. **Container marking.** All independent fuel and hazardous substance containers shall be marked with the contents and the permittee's name using paint or a permanent label.

b. **Fuel or hazardous substance transfers.** Secondary containment or a surface liner must be placed under all container or vehicle fuel tank inlet and outlet points, hose connections, and hose ends during fuel or hazardous substance transfers. Appropriate spill response equipment must be on hand during any transfer or handling of fuel or hazardous substances to respond to a spill of up to five gallons. Transfer operations shall be attended by trained personnel at all times.

Vehicle refueling shall not occur within the annual floodplain or tidelands. This restriction does not apply to water-borne vessels provided no more than 30 gallons of fuel are transferred at any given time.

c. **Storing containers within 100 feet of waterbodies.** Containers with a total capacity larger than 55 gallons which contain fuel or hazardous substances shall not be stored within 100 feet of a waterbody.

d. **Exceptions.** The Authorized Officer may under unique or special circumstances grant exceptions to this stipulation on a case-by-case basis. Requests for exceptions should be made to the Authorized Officer.

e. **Definitions.**

"Containers" means any item which is used to hold fuel or hazardous substances. This includes tanks, drums, double-walled tanks, portable testing facilities, fuel tanks on small equipment such as light plants and generators, flow test holding tanks, slop oil tanks, bladders, and bags. Manifolded tanks or any tanks in a series must be considered as single independent containers. Vehicles, including mobile seismic tanks, are not intended to be included under this definition.

"Hazardous substances" are defined under AS 46.03.826(5) as (a) an element or compound which, when it enters the atmosphere, water, or land, presents an imminent and substantial danger to the public health or welfare, including fish, animals, or vegetation; (b) oil; or (c) a substance defined as a hazardous substance under 42 U.S.C. 9601(14).

"Secondary containment" means an impermeable diked area or portable impermeable containment structure capable of containing 110 percent of the volume of the largest independent container. Double-walled tanks do not qualify as secondary containment unless an exception is granted for a particular tank.

"Surface liner" means any safe, non-permeable container (e.g., drips pans, fold-a-tanks, etc.) designed to catch and hold fluids for the purpose of preventing spills. Surface liners should be of adequate size and volume based on worst-case spill risk.

18. **Alaska Coastal Management Program.** This project is categorically consistent with the standards of the ACMP under A-list 2a (temporary placement of camps or equipment).

19. **Site Restoration.** The site shall be restored to a condition acceptable to the Authorized Officer.

20. **Wastewater Disposal.** Disposal of wastewater from any operation associated with this authorization must satisfy the requirements of the Alaska Department of Environmental Conservation.

21. **Solid Waste.**

a. All solid waste and debris generated from the activities conducted under this authorization shall be removed to a facility approved by the ADEC prior to the expiration, completion, or termination of the authorization or activities.

b. Paper products may be burned on site provided that measures (e.g. burn barrels, clearing of burn area to mineral soil) are taken to prevent wildfires.

c. Temporary storage and accumulation of solid waste (prior to its removal) shall conform to the following:

i. solid waste shall be stored in a manner that prevents a litter violation under AS 46.06.080;

ii. putrescible wastes (material that can decompose and cause obnoxious odors) shall be stored in a manner that prevents the attraction of or access to wildlife or disease vectors; and

iii. the premises shall be maintained free of solid waste that might create a health or safety hazard.

22. Issuance of this permit does not mean DNR has changed its position on the status of the unit or leases,

23. DNR is not waiving any aspect of its PTU decisions;

24. Permittee does this work at its own risk.

I have read and understand all of the foregoing and attached stipulations. By signing this permit, I agree to conduct the authorized activity in accordance with the terms and conditions of this permit.

Signature of Permittee or Authorized Representative	Title	Date
[signature]	ALASKA PRODUCTION MANAGER	7/3/08

Permittee's Address	City	State	Zip code
P.O. Box 196601	ANCHORAGE	ALASKA	99524-1781

Home Phone	Work Phone	Contact Person
907-[illegible]-4796	907-564-3911	ROBERT DRAGNICH

Signature of Authorized State Representative	Title	Date
Gary Schultz	Natural Resource Manager	July 7, 2008

Form Date: 11/13/02

STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF MINING, LAND AND WATER

NORTHERN REGION
3700 AIRPORT WAY
FAIRBANKS, ALASKA 99709-4699
PHONE: (907) 451-2740
FAX: (907) 451-2751

December 15, 2008

Robert Dragnich
Exxon Mobil Corporation
PO Box 196601
Anchorage, Alaska 99503

Reference: LAS 26895
Pt. Thomson 3 Equipment Staging Permit

Dear Mr. Dragnich:

As you know, on December 4, 2008 I conducted an inspection of the Pt. Thomson 3 pad. ExxonMobil (XOM) is using this site to stage fuel, a camp, and ice road construction equipment under Land Use Permit LAS 26895. The purpose of this letter is to give you an overview of my observations, to identify some deficiencies, and request corrective actions.

For the most part, XOM was in compliance with the environmental stipulations of the permit. Food waste was stored inside buildings until it was incinerated. There was no food waste in dumpsters. Drums of fuel were stored in lined areas. There were no signs of spills, leaks, litter, or debris. Nearly all the fuel tanks have secondary containment. The one exception to this was a double-walled tank that had an exposed hose with connection. Fairweather believed that this type of tank does not need secondary containment. I explained that most spills are from overfilling or leaky hose connections. Therefore, DNR does require secondary containment unless the tank configuration is such that there are no exposed valves or connections. The XOM representative stated that this would be corrected promptly.

The majority of the fuel currently being stored on site was within nine fuel tankers. XOM's on site representatives believed that since the tankers are approved by DOT/PF for travel on the highways, they do not need secondary containment. However, Stipulation 17 of the land use permit states simply "Secondary containment shall be provided for fuel or hazardous substances." In this case, the tankers are being used for storage, and do need secondary containment. We appreciate that XOM did place the tankers within secondary containment. However, this containment appeared to be somewhat substandard. The liners did not appear to have good support, were pulled up in areas, pushed down by snow in other areas, and may not contain a spill if one were to happen. XOM plans to remedy this by constructing a temporary fuel storage area using four of the 400 bbl tanks that are present on site. This new temporary fuel storage area will be placed near the northeast corner of the pad. A permanent fuel storage area will then be constructed to the west of the temporary fuel area

There were some issues of non-compliance with the permit, which mostly relate to the development plan of the permit. The project description included an aerial photo (see attached) that shows the area of use to be a small area near the southwest corner of the pad for the temporary tank installation and a small area near the northwest corner of the pad to be used for

equipment staging. Thus, the permit authorizes only these small portions of the pad. Currently the entire pad is being used, and the fuel storage is not where it is shown on the plan. Another issue is the number of fuel storage tanks. The project description states that there would be 9 18,000 gallon fuel tanks on site. Instead, there are 30 400 barrel tanks on site. Thus, XOM is not in compliance with the current development plan of the permit.

To resolve this non-compliance, XOM must submit a revised development plan that reflects the current areas of use as well as any changes in the areas of use that will take place in the near future. I have included as an attachment Instructions for Completing a Development Plan for your use. Please submit the revised development plan with a $100 application fee to this office by January 9, 2009. Once we have received the plan we can start the process of project review.

One final issue is the presence of the conductors on the pad. Two conductors are present on the north side of the Pt. Thomson 3 pad. Land Use Permit LAS 26895 authorized the "staging of equipment, fuel and camp..." and other surfaces uses of the pad only. The permit did not authorize the installation of conductors, which is the first step in the drilling of the oil wells. The drilling and placement of conductors must be approved by the Division of Oil & Gas. This activity was not clearly stated in your application and was not approved. ExxonMobil may be asked to remove these conductors next summer. No additional work below the surface should be conducted without the permission of the Division of Oil and Gas.

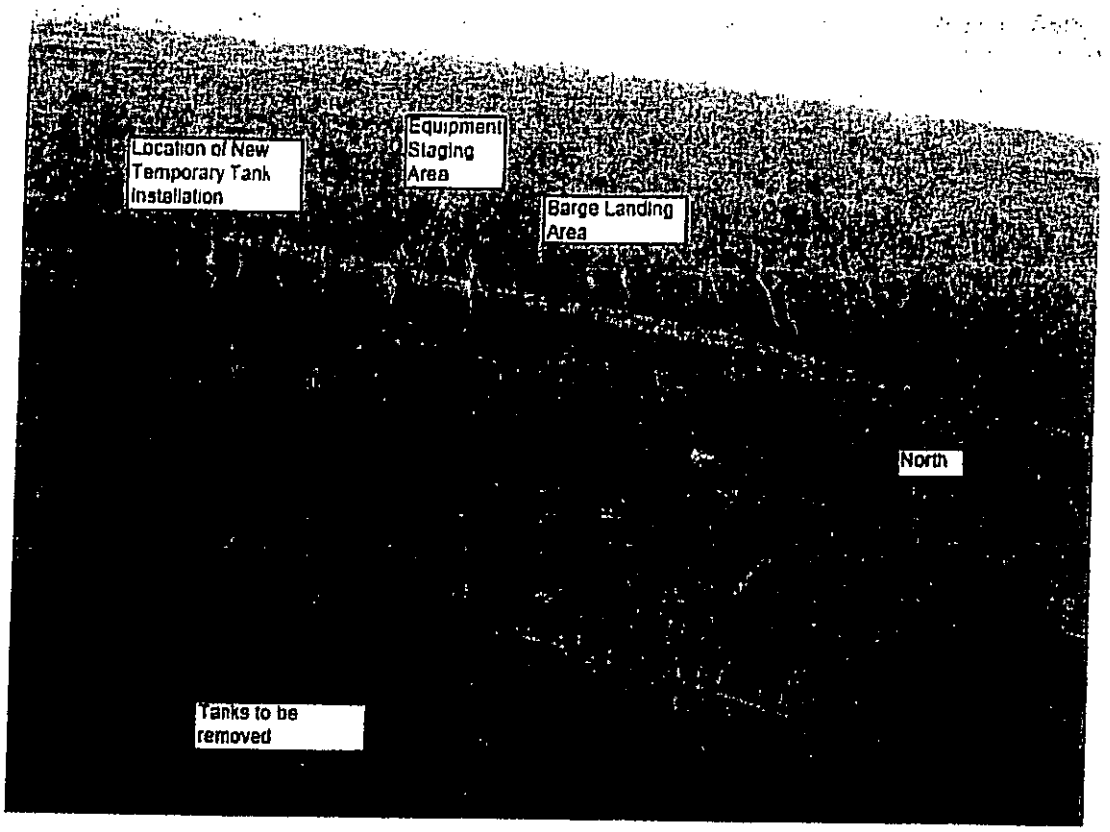
In closing, I would like to thank XOM for making arrangements to get me to this site on short notice. The XOM representatives did a good job of giving me a thorough site tour and answering all of my questions.

If you have any questions regarding this permit, please give me a call at 451-2732.

Sincerely,

Gary Schultz
Natural Resource Manager

Cc: Kevin Banks, Director, DO&G
Nan Thompson, DO&G
Steve Schmitz, DO&G
Dick Mylius, Director, DMLW
Wyn Menefee, DMLW


Location of New Temporary Tank Installation
Equipment Staging Area
Barge Landing Area
North
Tanks to be removed

December 21, 2008

Commissioner Tom Irwin
tom.irwin@alaska.gov
550 W. 7th Avenue, Suite 1400
Anchorage, Alaska 99501-3560

RE: Commissioner Irwin's Decision, dated December 3, 2008
Pacific Energy Resources, Ltd.
REQUEST FOR RECONSIDERATION of Commissioner's DENIAL of
Appeal of Division's Denial of the First Expansion of the Corsair Unit

Acting Director Banks' Decision, dated December 1, 2008
Pacific Energy Resources, Ltd.
APPEAL of Division's Decision of Non-acceptance of Heavy-Lift Contract

Dear Commissioner Irwin,

According to 11 AAC 02, a person affected by the Decisions referenced above may appeal it to you. I am an affected person by virtue of one or more of the following qualifications:

1. I am an American citizen. The approval of feasible Plans of Exploration is essential for the security, prosperity, and promotion of the nation's energy policy;

2. Alaska Statute 38.05.180 (a) states that "The Legislature finds that (1) the people of Alaska have an interest in the state's oil and gas resources..." I am an Alaska Resident and recognize the importance of oil and gas development for Alaska's economy and my financial future;

3. I am employed in Alaska. Decisions regarding the denial of oil and gas developments affect Alaska residents, Alaskan jobs, Alaskan businesses, and the ability to not pay State income taxes;

4. I receive the Alaska Permanent Fund Dividend. Decisions regarding the denial of oil and gas developments affect the value of and my ability to receive the Alaska Permanent Fund Dividend;

5. I live in the one of the rail belt communities served by Cook Inlet basin natural gas market. There is a shortage of natural gas reserves in the Cook Inlet that must be supplemented by new exploration. Denial of Plans of Exploration by independent companies in the Cook Inlet restricts competition in the industry and forces natural gas prices higher.

6. I have an interest in oil and gas leases in Alaska. Decisions regarding the denial of oil and gas developments and subsequent lease terminations may set unfair precedence's that affect all lessees.

Reference is made to that certain Kitchen Unit Agreement, that certain Corsair Unit Agreement, all related Plans of Explorations and modifications and extensions thereto, the Amended Draft Kitchen Unit Plan of Exploration Extension Application, the Application and Appeal of the First Expansion of the Corsair Unit, the Contracts commonly known as the Heavy-Lift Vessel Contract, the Jack-up Drilling Rig Contract, the rig sharing Agreement, and all related Appeals and Requests for Reconsideration by Escopeta Oil Co, LLC and Pacific Energy Resources, Ltd., together all collectively know as "The Documents". The Documents are hereby incorporated into these Appeals by reference, and made a part hereof.

At a time of historically low oil prices, the recent addition of the Beluga whale to the Endangered Species List, the critical shortage of natural gas reserves in the Cook Inlet, the lack of interest in the Cook Inlet by new, qualified exploration companies, the existing major oil and gas producers in the Cook Inlet only performing in-field drilling, and the historically low interest in offshore Cook Inlet leases at the Areawide Lease Sales, these two Appeals are of statewide significance and importance.

I request your reconsideration of your Decision dated 12/3/08 for the following reasons:

Pacific Energy Resources, Ltd. is the Unit Operator of the Corsair Unit, offshore in the Cook Inlet. They have made significant expenditures in identifying the Corsair prospect reservoir(s), which was presented to the Division of Oil and Gas' Resources Evaluation staff who concurred with the delineation of the reservoir(s) that included the expansion acreage. Division staff stated in the Decision the expansion acreage contained a viable hydrocarbon target, the Tyonek oil sands. Inclusion of the expansion acreage into the Corsair Unit is required to preserve the entire geologic structure under one contiguous tract, having consistent administrative terms, and the ability of the individual leases to be operated under a collective agreement.

Your Decision states that you have decided the expansion of the Corsair Unit was "not in the public interest." I object. I am a member of the public and I believe it is in my interest to have the expansion acreage included in the Corsair Unit so that Pacific Energy Resources, as Operator of the Corsair Unit, can develop the entire underlying reservoir(s) efficiently. Reference is made to AS 38.05.180(p).

Your Decision states that you have decided the expansion of the Corsair Unit "does not promote the conservation of natural resources and prevention or economic and physical waste..." I disagree. By removing a portion of an oil and gas deposit from the whole, it potentially separates its control by a single operator. Multiple operators developing separate portions of the same oil and gas accumulation promotes waste of the resource, duplication of facilities, and unnecessary additional environmental impact. It is unreasonable to consider that any other party would develop the non-unitized leases on their own, without having the benefit and security that unitization of the entire reservoir(s) provide. The expansion acreage should be included in the Corsair Unit so that Pacific Energy Resources, as Operator of the Corsair Unit, can develop the entire underlying reservoir(s) efficiently.

Your Decision does not provide for the protection of Pacific Energy Resources' interest, nor does it protect my interests as a resident and consumer.

Pacific Energy Resources, Ltd. has agreed to a Plan of Exploration that includes an exploratory well being drilled by June 30, 2009. You propose to take away these leases and offer them in the upcoming May 2009 lease sale, just one month prior to the drilling commitment date, and in fact, for Pacific Energy to meet this drilling date, they would have to actually be on location in May of 2009 and drilling. If Pacific Energy does not meet that drilling commitment date, then all their acreage is relinquished to the State, including any expansion acreage that may be included. It makes no sense to NOT grant this expansion, given that Pacific Energy Resources will most likely be performing drilling operations in the Corsair Unit at the time of the May 2009 lease sale.

The Division of Oil and Gas has routinely expanded unit area boundaries in the past as a matter of necessity to allow the Unit Operator control over the entire geologic structure. Such has been the case for the Point Thomson Unit, the Prudhoe Bay Unit, the Trading Bay Unit, the Colville River Unit, the Kuparuk River Unit (Tarn and W. Sak), the Nikaitchuq Unit, the Oooguruk Unit, and many others. Allowing expansions for one company or unit, and not allowing them under similar circumstances for Pacific Energy Resources is in contradiction with the Alaska Constitution, Article 8, Section 17, which states, in part: "regulations governing the use or disposal of natural resources shall apply equally to all persons similarly situated..."

Pacific Energy Resources, Ltd. purchased Forest Oil Company for one-half a billion dollars in August of 2007. They were approved by the DNR as Unit Operator at the end of November 2007, and had only 34 days to meet the prior drilling commitment (12/31/07) made by Forest Oil Company. Because 1) Pacific Energy Resources was aware that extensions to Plans of Operations to meet difficult drilling commitment dates were routinely made by the DNR, and 2) the delivery of a jack-up drilling rig to the Cook Inlet, as well as exploration of the Corsair prospect, was in the State's best interest, the DNR approved an extension of the drilling commitment date by a mere six-months.

The DNR now tries to use that approved and necessary extension as ammunition against the Corsair Unit expansion. This is unfair and unrelated to the delineation of the Corsair prospect within the expansion acreage. Besides, the Division of Oil and Gas has routinely extended Plans of Exploration in the past as a matter of necessity to allow the Unit Operator the time required to meet certain work commitments. Such has been he case for the Point Thomson Unit, the North Fork Unit, the Cosmopolitan Unit, and many others. Allowing extensions for one company or unit, and not allowing them under similar circumstances for Escopeta Oil Company is in contradiction with the Alaska Constitution, Article 8, Section 17, which states, in part: "regulations governing the use or disposal of natural resources shall apply equally to all persons similarly situated..." Extensions of Plans of Exploration are more the "norm" than the "exception."

Frankly, Pacific Energy Resources is due equal treatment under the law, plain and simple.

The Divisions contention that the subject expansion leases can be terminated and leased to another company which will develop the resources faster has no factual, historical, or rational basis. The Division has failed to ever prove this to be the case.

In fact, the continued resistance by the DNR to exploration and development plans, and forcing companies to take their plans before the Superior Court of Alaska, is actually preventing those plans to come to fruition within the timeframes requested by the companies. It is the DNR's own actions that are making the companies need further extensions. The DNR should approve the plans and give these companies the chance to perform.

A jack-up drilling rig has not been in the Cook Inlet since 1993 – 15 years ago. Approval of the expanded Corsair Unit will allow Pacific Energy Resources the control over the entire Corsair reservoir(s) and the ability to efficiently fulfill its drilling plans in conjunction with the joint efforts it is making with Escopeta Oil Company, LLC. to bring a jack-up drilling rig to the Cook Inlet.

Further, your reversal of Acting Director Banks' 12/01/2008 Decision of "not accepting" Pacific Energy Resources' and Escopeta Oil Company's heavy-lift vessel contract is requested for the following reasons:

Pacific Energy Resources and Escopeta Oil Company have submitted valid jack-up drilling rig contracts and heavy-lift vessel contracts to the State as evidence of their forward plans to explore and hopefully develop and produce offshore Cook Inlet oil and natural gas. The Division's non-acceptance of the contracts is beyond its regulatory authority and this decision is prejudicial, arbitrary and capricious.

In the Division's attempt to impose commercial terms and stipulations in the heavy-lift vessel contract, the Division did not specify an effective date. Should the Division grant the necessary Plan of Exploration and extensions, the contract would be immediately effective. The contract itself was executed by all parties concerned and is valid as a matter of law. The Division's insistence of certain financial terms or obligations to be included in third-party commercial contracts removes a company's ability to negotiate freely and jeopardizes their ability to receive "the benefit of the bargain" they are entitled to under the law.

The heavy-lift vessel clause required by the Division to deliver the jack-up drilling rig to the Cook Inlet so a well may be drilled by Pacific Energy by June 30, 2009, although unlawful, is fulfilled. The contract specifies a loading date as early as March 1, 2009.

The Division acknowledges that the trip to the Cook Inlet could take as little as 46 days, putting the Jack-up rig in the Cook Inlet by April 15, 2009, allowing two and one-half months (ten-weeks) for drilling operations. The Division acknowledges that rig preparation, setting at the drilling location and drilling of the well could take six weeks. The Division's contention that this contract does not allow sufficient time to meet the first drilling commitment date by Pacific Energy Resources is in error, faulty and not supported by a preponderance of the facts.

The heavy-lift vessel clause required by the Division to evidence the "required deposit", although unlawful, is fulfilled. The "required deposit" at the signing date of the contract is zero-dollars. A 5% deposit is required one-day after the contract's effective date, which is the date the Division grants the necessary extensions, and that date has not come yet.

The Division does not have the authority to approve a commercial contract between third parties, nor establish commercial terms or requirements in commercial contracts between third parties. The Division's non-acceptance of the heavy-lift vessel contract is not relevant nor is it backed by precedence or law. The State of Alaska is prohibited from interfering or impairing the obligation of contracts under the Alaska Constitution, Article 1, Section 15.

Alaska Statute 38.05.180 (a) states that "The Legislature finds that (2) it is in the best interests of the state (A) to encourage an assessment of its oil and gas resources and to allow the maximum flexibility in the methods of issuing to (i) recognize the many varied geographical regions of the state and the different costs of exploring oil and gas in these regions." The unusual risks and extraordinary exploration and development costs and considerations associated with offshore Cook Inlet exploration and development are further recognized under Alaska Statute 38.05.180 (f) (4 & 5).

The actions of the Division of Oil and Gas in denying feasible unit expansions and Plans of Exploration do not encourage oil and gas exploration and production companies to want to continue to "fight" the Division in allowing them to assess the state's oil and gas resources. This is contrary to the Legislatures findings.

The offshore resources of the Cook Inlet have not been explored for over 15 years. At a time of falling oil prices, increasing natural gas utility costs in the Cook Inlet, the recessing financial stability of the nation's economy and the looming failure of many businesses, it is essential to encourage exploration and development in the Cook Inlet region.

With the three major oil and gas companies currently operating in the Cook Inlet only doing infield drilling and not exploring for new reserves, it is essential that we encourage the other companies to stay in Alaska and give them the chance to have their plans come to fruition, instead of constantly looking for reasons and methods of inhibiting their plans or even forcing them out of Alaska.

The cost of drilling a well offshore and the amount of time necessary to acquire a suitable jack-up drilling rig, heavy-lift vessel and a Jones Act waiver from the U.S. Department of Homeland Security is much more substantial than an onshore well accessible by either ice roads or gravel roads. The financial considerations, logistics and planning necessary are multitudes more complicated. However, the planning and contracting are now completed and it is just a matter of delivery time and scheduling the wells in cooperation with Escopeta Oil Company's well plans.

Denial of the plans by Pacific Energy Resources and Escopeta Oil Company does not send the right message to potential oil and gas investors or potential exploration and production companies looking at Alaska, and is contrary to the intent of the Alaska Constitution, Article 8, Section 1. Further, it is an involuntary divesting of Escopeta's and Pacific Energy's vested rights, interests and investments in the leases and prospects, in violation of the Alaska Constitution, Article 8, Section 16.

Article 1 of the Alaska Constitution, Section 2 states: "All political power is inherent in the people. All government originates with the people, is founded upon their will only, and is instituted solely for the good of the people as a whole." The DNR's decisions violate my constitutional rights and the "good of the people as a whole" are not being considered or served by these prejudicial and restrictive decisions.

Please Reconsider your Decision of 12/03/08 and reverse Director Banks' Decision of 12/01/2008 regarding Pacific Energy Resources' need for the expansion of the Corsair Unit and its contract for the use of the heavy-lift vessel.

Additionally, I request that the Unit and the Leases comprising the Corsair Unit be stayed in accordance with 11 AAC 02.060 (c)(3), and not be included in any lease sale or otherwise that may affect these leases. This stay is requested to protect my interests, the public's interest, and the interests of Pacific Energy Resources, Ltd.

Forcing yet another company to take their plans before the Superior Court of Alaska does not serve the public's interest, or the best interests of the State of Alaska.

Commissioner Irwin, these two companies are the first to attempt at bringing a jack-up drilling rig to the Cook Inlet in over 15 years. They have worked hard at getting their plans together, and not only do they deserve the chance to succeed, but as a citizen, I deserve for you to give them that chance as well.

Thank you for your consideration on this issue of statewide significance and importance.

Respectfully Submitted,

/ss (submitted electronically via e-mail)

Bruce D. Webb, for:

Webb Exploration and Production, LLC, President
Webb Petroleum Services, Owner
Alaskan Crude Corporation, Vice President
The Ridge Development Company, LLC, Managing Member
Executive Realty, Broker

P.O. Box 113141
Anchorage, AK 99511

ExxonMobil Production Company
P. O. Box 196601
Anchorage, Alaska 99519-6601
907 561 5331 Telephone
907 564 3677 Facsimile

Craig A. Haymes
Alaska Production Manager
Jt. Interest U.S.

ExxonMobil
Production

December 9, 2008

The Honorable Jay Ramras
Chairman, Judiciary Committee
Alaska House of Representatives
1292 Sadler Way, Suite 325
Fairbanks, Alaska 99701

The Honorable Craig Johnson
Co-Chair, Resources Committee
Alaska House of Representatives
716West 4th Avenue, Suite 640
Anchorage, Alaska 99501-2133

The Honorable Carl Gatto
Co-Chair, Resources Committee
Alaska House of Representatives
600 East Railroad Avenue
Wasilla, Alaska 99654

Re: ExxonMobil Testimony on Point Thomson Unit, December 1, 2008

Dear Chairman Ramras, Co-Chair Johnson and Co-Chair Gatto:

Thank you for the opportunity to present an update on ExxonMobil's drilling and work activities at Point Thomson to the Joint House Judiciary and Resources Committees. ExxonMobil remains committed to working with the State to see that Point Thomson is developed in an efficient and responsible manner.

As requested by the Committee, attached is a copy of the permit application and approval issued by the Department of Natural Resources that authorized equipment staging and site preparation activities, including the drilling and setting of conductors. We also are including a copy of the permit issued by the North Slope Borough that addressed this same activity.

If you have any further questions or if I can be of further assistance please do not hesitate to call.

Very truly yours,

CAH:jpc
Attachments

xc: Representative John Coghill
Representative Nancy Dahlstrom
Representative Bryce Edgmon
Representative Anna Fairclough
Representative Max Gruenberg
Representative David Guttenberg
Representative Lindsey Holmes
Representative Scott Kawasaki
Representative Bob Lynn
Representative Bob Roses
Representative Ralph Samuels
Representative Paul Seaton

STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF MINING, LAND AND WATER

NORTHERN REGION
3700 AIRPORT WAY
FAIRBANKS, ALASKA 99709-4699
PHONE: (907) 451-2740
FAX: (907) 451-2751

July 7, 2008

Robert Dragnich
Exxon Mobil Corporation
PO Box 196601
Anchorage, Alaska 99503

Reference: LAS 26895
Pt. Thomson 3 Equipment Staging

Dear Mr. Dragnich:

Enclosed is your signed copy of the Land Use Permit for staging a camp, ice road construction equipment, and fuel at the Pt. Thomson 3 Pad.

Again, please note that the permit contains several conditions that are specific to the current legal issues involving Exxon Mobil and the Point Thomson Unit. These conditions are as follows:

22. Issuance of this permit does not mean DNR has changed its position on the status of the unit or leases,

23. DNR is not waiving any aspect of its PTU decisions;

24. Permittee does this work at its own risk.

If you have any questions regarding this permit, please give us a call.

Sincerely,

Gary Schultz
Natural Resource Manager

Cc: Nan Thompson, DO&G
Steve Schmitz, DO&G
Jack Winters, DNR, OHMP
Ben Greene, NSB

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

STATE OF ALASKA
Department of Natural Resources
Division of Mining, Land & Water

LAND USE PERMIT
Under AS 38.05.850

PERMIT # LAS 26895

Exxon Mobil Corporation, herein known as the Permittee, is issued this permit authorizing the use of state land for storage activities, including the following location:

Section 34, Township 10 North, Range 23 East, Umiat Meridian, located in the North Slope Borough, as shown on the attached map.

This permit is effective beginning **July 1, 2008** and ending **December 31, 2009** unless sooner terminated at the state's discretion. This permit does not convey an interest in state land and as such is revocable with or without cause. No preference right for use or conveyance of the land is granted or implied by this authorization.

This permit is issued for the purpose of:

Staging of equipment, fuel, and camp at the Point Thomson Unit #3 Exploration Pad. The activity includes maintenance of the pad, with the possible placement of additional gravel within the existing pad footprint.

All activities shall be conducted in accordance with the following **General and Special Stipulations.**

General and Special Stipulations

1. **Authorized Officer.** The Authorized Officer for the Department of Natural Resources is the Regional Manager. The Authorized Officer may be contacted at 3700 Airport Way, Fairbanks, Alaska 99709 or (907) 451-2740. The Authorized Officer reserves the right to modify these stipulations or use additional stipulations as deemed necessary.

2. **Development Plan** The development of the site authorized by this permit shall be limited to the area and improvements specified in the development plan dated June 12, 2008. The permittee is responsible for accurately siting development and operations within this area. Any proposed revisions to the development plan must be approved in writing by the Authorized Officer before the change in use or development occurs.

3. **Compliance with Governmental Requirements; Recovery of Costs.** Permittee shall, at its expense, comply with all applicable laws, regulations, rules and orders, and the requirements and stipulations included in this authorization. Permittee shall ensure compliance by its employees, agents, contractors, subcontractors, licensees, or invitees.

4. **Indemnification.** Permittee assumes all responsibility, risk and liability for its activities and those of its employees, agents, contractors, subcontractors, licensees, or invitees, directly or indirectly related to this permit, including environmental and hazardous substance risk and liability, whether accruing during or after the term of this permit. Permittee shall defend, indemnify, and hold harmless the State of Alaska, its agents and employees, from and against any and all suits, claims, actions, losses, costs, penalties, and damages of whatever kind or nature, including all attorney's fees and litigation costs, arising out of, in connection with, or incident to any act or omission by Permittee, its employees, agents, contractors, subcontractors, licensees, or invitees, unless the proximate cause of the injury or damage is the sole negligence or willful misconduct of the State or a person acting on the State's behalf. Within 15 days, Permittee shall accept any such cause, action or proceeding upon tender by the State. This indemnification shall survive the termination of the permit.

5. **Valid Existing Rights.** This authorization is subject to all valid existing rights in and to the land under this authorization. The State of Alaska makes no representations or warranties whatsoever, either expressed or implied, as to the existence, number, or nature of such valid existing rights.

6. **Reservation of Rights.** The Department of Natural Resources reserves the right to grant additional authorizations to third parties for compatible uses on or adjacent to the land under this authorization which do not unreasonably interfere with Permittee's authorized uses.

7. **Performance Guaranty.** The Permittee shall provide a surety bond or other form of security acceptable to the Division in the amount of $175,000 payable to the State of Alaska. Such performance guaranty shall remain in effect for the term of this authorization and shall secure performance of the Permittee's obligations hereunder. The amount of the performance guaranty may be adjusted by the Authorized Officer upon approval of amendments to this authorization, changes in the development plan, upon any change in the activities conducted or performance of operations conducted on the premises. If Permittee fails to perform the obligations under this permit within a reasonable time, the State may perform Permittee's obligations at Permittee's expense. Permittee agrees to pay within 20 days following demand, all costs and expenses reasonably incurred by the State of Alaska as a result of the failure of the Permittee to comply with the terms of this permit. The provisions of this permit shall not prejudice the State's right to obtain a remedy under any law or regulation. If the authorized officer determines that the Permittee has satisfied the terms and conditions of this authorization the performance guaranty may be released. The performance guaranty may only be released in a writing signed by the Authorized Officer.

8. **Assignment.** This permit may be transferred or assigned with prior written approval from the Authorized Officer.

9. **Inspection.**

   a) Authorized representatives of the State of Alaska shall have reasonable access to the subject parcel for purposes of inspection.

b) The Permittee may be charged fees under 11 AAC 05.010(a)(7)(M) for reasonable routine inspections of the subject parcel, inspections concerning non-compliance, and a final close-out inspection.

10. **Violations.** This authorization is revocable immediately upon violation of any of its terms, conditions, stipulations, nonpayment of fees, or upon failure to comply with any other applicable laws, statutes and regulations (federal and state). Should any unlawful discharge, leakage, spillage, emission, or pollution of any type occur due to Permittee's, or its employees', agents', contractors', subcontractors', licensees', or invitees' act or omission, Permittee, at its expense shall be obligated to clean the area to the reasonable satisfaction of the State of Alaska.

11. **Use Fee.**

a. The permittee shall pay to the Division an annual use fee of $31,976.72 without the necessity of any billing by the Division. The use fee for the period of July 1 through December 31, 2009 may be paid on a prorated basis.

b. The use fee is due on or July 1, 2008, and annually thereafter without the necessity of any billing by the Division.

12. **Late Payment Penalty Charges.** If the required use fee is not received by the State by the 10th day of the month when due, the Permittee shall pay a late fee for any late payment. The amount of the late fee is the greater of either the fee specified in 11 AAC 05.010 or interest calculated from the due date at the rate set by AS 45.45.010(a) and will be assessed on a past-due account until payment is received by the state.

13. **Returned Check Penalty.** A returned check fee as provided in 11 AAC 05.010 will be assessed for any check on which the bank refuses payment. Late payment penalties shall continue to accumulate.

14. **Site Maintenance.** The area subject to this authorization shall be maintained in a neat, clean and safe condition, free of any solid waste, debris or litter, except containerized or otherwise legally stored.

15. **Notification.** The Permittee shall notify the Department of Natural Resources of all spills that must be reported under 18 AAC 75.300 under timelines of 18.AAC 75.300. All fires and explosions must be reported to DNR immediately. The DNR 24 hour spill report number is (907) 451-2678; the fax number is (907) 451-2751. The DEC oil spill report number is (800) 478-9300. DNR and DEC shall be supplied with all follow-up incident reports.

16. **Storage of Equipment.** The site shall be protected from leaking or dripping hazardous substances or fuel from equipment and vehicles. The Permittee shall place drip pans or other surface liners designed to catch and hold fluids under the equipment or develop an area for storage using an impermeable liner or other suitable containment mechanism.

17. **Fuel and Hazardous Substances.** Secondary containment shall be provided for fuel or hazardous substances.

a. **Container marking.** All independent fuel and hazardous substance containers shall be marked with the contents and the permittee's name using paint or a permanent label.

b. **Fuel or hazardous substance transfers.** Secondary containment or a surface liner must be placed under all container or vehicle fuel tank inlet and outlet points, hose connections, and hose ends during fuel or hazardous substance transfers. Appropriate spill response equipment must be on hand during any transfer or handling of fuel or hazardous substances to respond to a spill of up to five gallons. Transfer operations shall be attended by trained personnel at all times.

Vehicle refueling shall not occur within the annual floodplain or tidelands. This restriction does not apply to water-borne vessels provided no more than 30 gallons of fuel are transferred at any given time.

c. **Storing containers within 100 feet of waterbodies.** Containers with a total capacity larger than 55 gallons which contain fuel or hazardous substances shall not be stored within 100 feet of a waterbody.

d. **Exceptions.** The Authorized Officer may under unique or special circumstances grant exceptions to this stipulation on a case-by-case basis. Requests for exceptions should be made to the Authorized Officer.

e. **Definitions.**

"Containers" means any item which is used to hold fuel or hazardous substances. This includes tanks, drums, double-walled tanks, portable testing facilities, fuel tanks on small equipment such as light plants and generators, flow test holding tanks, slop oil tanks, bladders, and bags. Manifolded tanks or any tanks in a series must be considered as single independent containers. Vehicles, including mobile seismic tanks, are not intended to be included under this definition.

"Hazardous substances" are defined under AS 46.03.826(5) as (a) an element or compound which, when it enters the atmosphere, water, or land, presents an imminent and substantial danger to the public health or welfare, including fish, animals, or vegetation; (b) oil; or (c) a substance defined as a hazardous substance under 42 U.S.C. 9601(14).

"Secondary containment" means an impermeable diked area or portable impermeable containment structure capable of containing 110 percent of the volume of the largest independent container. Double-walled tanks do not qualify as secondary containment unless an exception is granted for a particular tank.

"Surface liner" means any safe, non-permeable container (e.g., drips pans, fold-a-tanks, etc.) designed to catch and hold fluids for the purpose of preventing spills. Surface liners should be of adequate size and volume based on worst-case spill risk.

18. **Alaska Coastal Management Program.** This project is categorically consistent with the standards of the ACMP under A-list 2a (temporary placement of camps or equipment).

19. **Site Restoration.** The site shall be restored to a condition acceptable to the Authorized Officer.

20. **Wastewater Disposal.** Disposal of wastewater from any operation associated with this authorization must satisfy the requirements of the Alaska Department of Environmental Conservation.

21. **Solid Waste.**

a. All solid waste and debris generated from the activities conducted under this authorization shall be removed to a facility approved by the ADEC prior to the expiration, completion, or termination of the authorization or activities.

b. Paper products may be burned on site provided that measures (e.g. burn barrels, clearing of burn area to mineral soil) are taken to prevent wildfires.

c. Temporary storage and accumulation of solid waste (prior to its removal) shall conform to the following:

i. solid waste shall be stored in a manner that prevents a litter violation under AS 46.06.080;

ii. putrescible wastes (material that can decompose and cause obnoxious odors) shall be stored in a manner that prevents the attraction of or access to wildlife or disease vectors; and

iii. the premises shall be maintained free of solid waste that might create a health or safety hazard.

22. Issuance of this permit does not mean DNR has changed its position on the status of the unit or leases,

23. DNR is not waiving any aspect of its PTU decisions;

24. Permittee does this work at its own risk.

I have read and understand all of the foregoing and attached stipulations. By signing this permit, I agree to conduct the authorized activity in accordance with the terms and conditions of this permit.

Signature of Permittee or Authorized Representative	Title	Date
[signature]	ALASKA PRODUCTION MANAGER	7/3/08

Permittee's Address	City	State	Zip code
P.O. Box 196601	ANCHORAGE	ALASKA	99524-1781

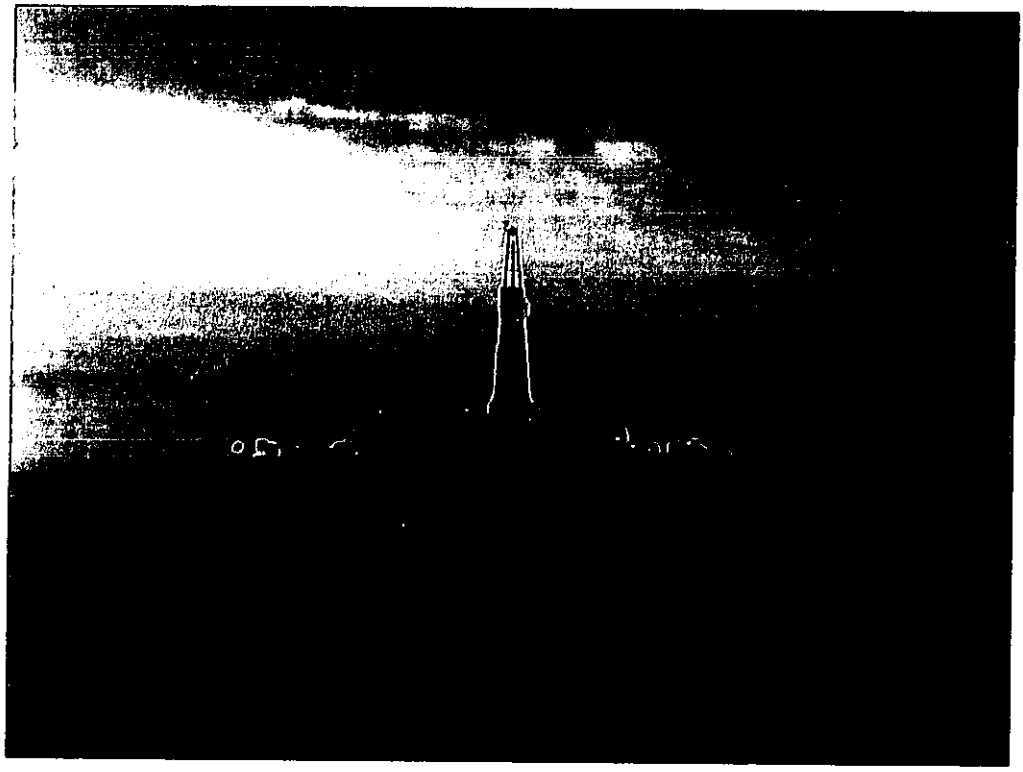
Home Phone	Work Phone	Contact Person
907-830-4796	907-564-3911	ROBERT DRAGNICH

Signature of Authorized State Representative	Title	Date
Gary Schultz	Natural Resource Manager	July 7, 2008

Form Date: 11/13/02

ExxonMobil

Point Thomson Drilling Program
Equipment Staging and Pad Preparation Project Description



Prepared: June 11, 2008

Exxon Mobil Corporation
Point Thomson Drilling Program
Equipment Staging and Site Preparation Project Description

1. Introduction and Project Overview

Exxon Mobil Corporation (ExxonMobil), as operator and on behalf of the Point Thomson leaseholders, proposes to stage equipment and fuel for use in ice road construction and other operations, and conduct site preparation work at the existing Point Thomson Unit #3 (PTU #3) gravel pad during July and August 2008 as the initial phase of drilling operations for the Point Thomson Drilling Program. The PTU #3 location lies 52 miles east of Deadhorse, Alaska along the Beaufort Sea coast. Ice road construction and actual drilling will be covered under subsequent permit submittals.

The proposed work includes facilitating removal of equipment currently stored on the pad by another operator; placement of ice road construction equipment, a 30-man construction camp, fuel storage tanks, and fuel associated with ice road construction and for use in other operations; and maintenance and site preparation of the existing pad. Additional project equipment to be staged onsite may include drilling rig components, casing and materials for drilling activities. The maintenance and site preparation work will include grading, placing additional gravel from the Prudhoe Bay area, and installation of a cellar(s) and conductor(s). Following site preparation work, a small staff may be maintained onsite for maintenance and security until ice road construction personnel mobilize to the PTU #3 location in November or December.

Permit approval for the work is being requested to allow the staging of ice road construction equipment and pad maintenance and site preparation work to be performed in an optimal manner during the summer. This also will allow greater utilization of the available winter drilling season on the PTU #3 location. Approximately three to four weeks can be added to the available drilling season time with summer staging of equipment and preparation of the site. Time savings will be realized by staging ice road construction equipment to allow construction of the sea ice road to occur from both the PTU #3 and Prudhoe Bay ends of the planned road and by having the site ready to accept ice road construction crews and the drilling rig.

2. Site Description

The existing PTU #3 gravel pad was used for the drilling of the Point Thomson Unit #3 exploratory well. Temporary fuel storage tanks (empty) as well as miscellaneous equipment and stacked well casing is being stored on the location by another operator. There is a gravel extension from the PTU #3 pad to the Beaufort Sea coastline that allows equipment from a barge to be transferred to the pad without crossing tundra. The site is largely surrounded by typical North Slope coastal tundra as shown in the attached aerial image, Figure 1.

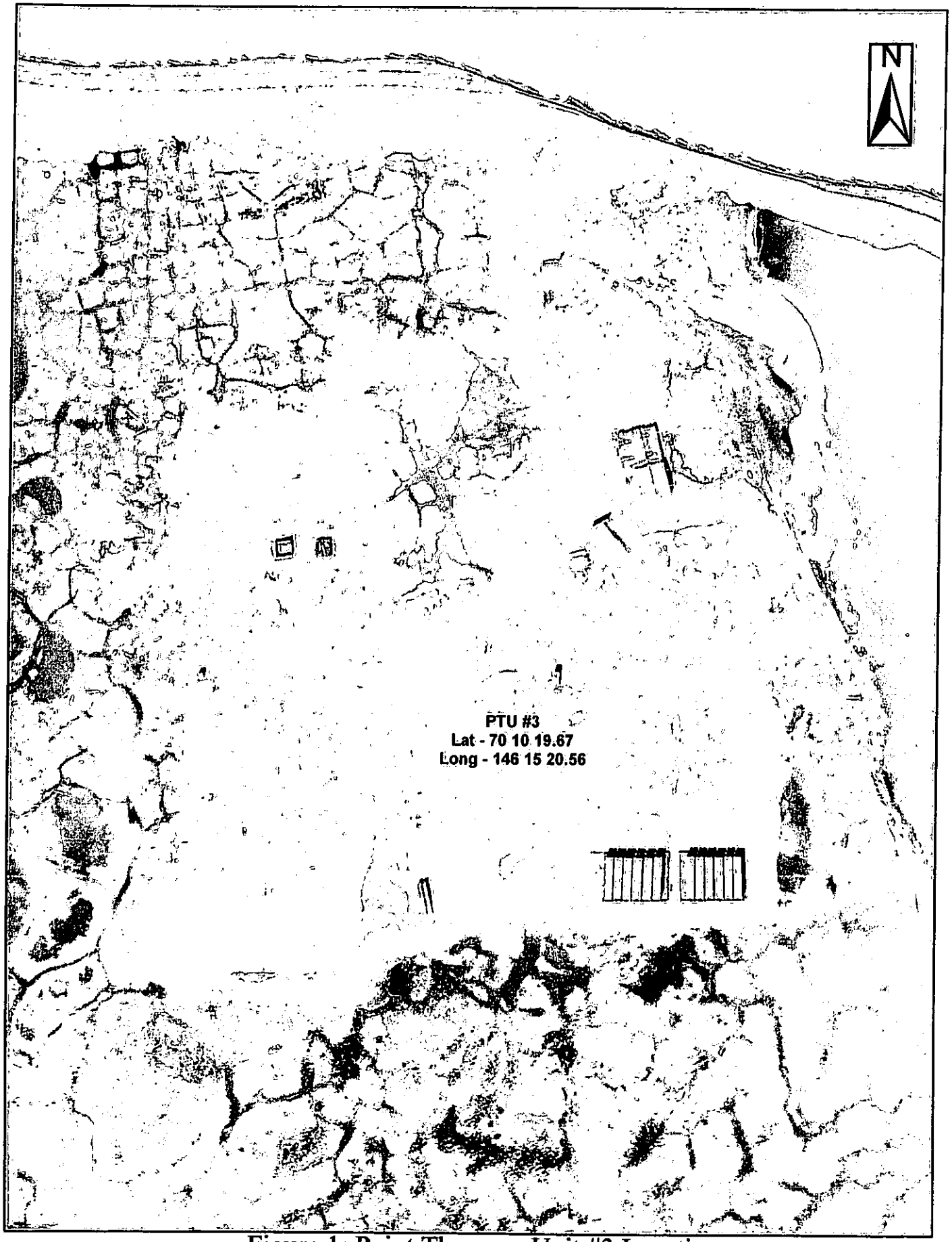


Figure 1: Point Thomson Unit #3 Location

3. Project Permitting

Permit applications and requested authorizations for the proposed activities are listed in Table 1.

Table 1: Project Permitting Requirements.

Permit Approval or Authorization	Agency
Coastal Project Questionnaire	Alaska Department of Natural Resources (ADNR)
Land Use Permit	Alaska Department of Natural Resources
Title 41/Title 16 Fish Habitat Permit	Alaska Department of Natural Resources
Development Permit	North Slope Borough Planning Department
Letter of Authorization (LOA) for the incidental taking of polar bears and Pacific walrus	U.S. Fish and Wildlife Service
Spill Prevention, Control, and Countermeasure (SPCC) Plan	U.S. Environmental Protection Agency (EPA)
Operations and Facility Response Plan	U.S. Coast Guard

Helicopter operations will be conducted consistent with ADNR's Beaufort Sea and North Slope Lease Sale Mitigation Measures, which require that helicopter operations maintain elevation of 1500' or more whenever possible and make approaches and departures from landing points in a near vertical profile when practicable.

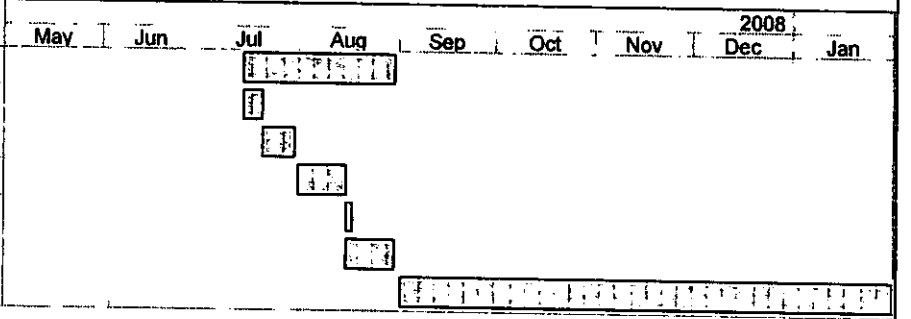
4. Summary Operations Plan

4.1 Project Schedule

The project schedule for the equipment staging and site work is shown in Figure 2. An initial site inspection and survey, on or about June 20, 2008, is planned in advance of initiating project activities. Barging of the ice road construction equipment, 30 man camp, fuel tanks and other necessary supplies would occur in mid to late July and August. Based on the results of the June survey, gravel may be barged in to provide a stable surface for placement of the rig and drilling of the well within the existing gravel footprint. Barging activities will be confined to timeframes that do not conflict with subsistence whaling activities. A small crew may remain onsite to conduct maintenance and provide security for the equipment and materials until ice road construction personnel mobilize to the location in November or December.

Figure 2
ExxonMobil
Point Thomson
Equipment Staging and Pad Preparation Project Schedule

ID	Task Name	Start	Finish
1	Barging of Equipment and Materials	7/15/08	8/30/08
2	Camp Setup	7/15/08	7/20/08
3	Gravel Hauling	7/21/08	7/30/08
4	Pad Preparation	8/1/08	8/15/08
5	Onsite Equipment Backhaul	8/16/08	8/17/08
6	Final Equipment Staging	8/16/08	8/30/08
7	Security Crew Standby	9/2/08	1/31/09



Project: Project1.mpp
Date: 6/3/08

Task
Split
Progress
Milestone
Summary
Project Summary
External Tasks
External Milestone
Deadline

4.2 Site Access

4.2.1 Helicopter Support

Access to the PTU #3 location for personnel and small freight operations will be conducted via helicopter transportation from the Deadhorse airport. A Bell 212 or 412 helicopter will be utilized for personnel movement and emergency response during the work program.

4.2.2 Barge Transportation

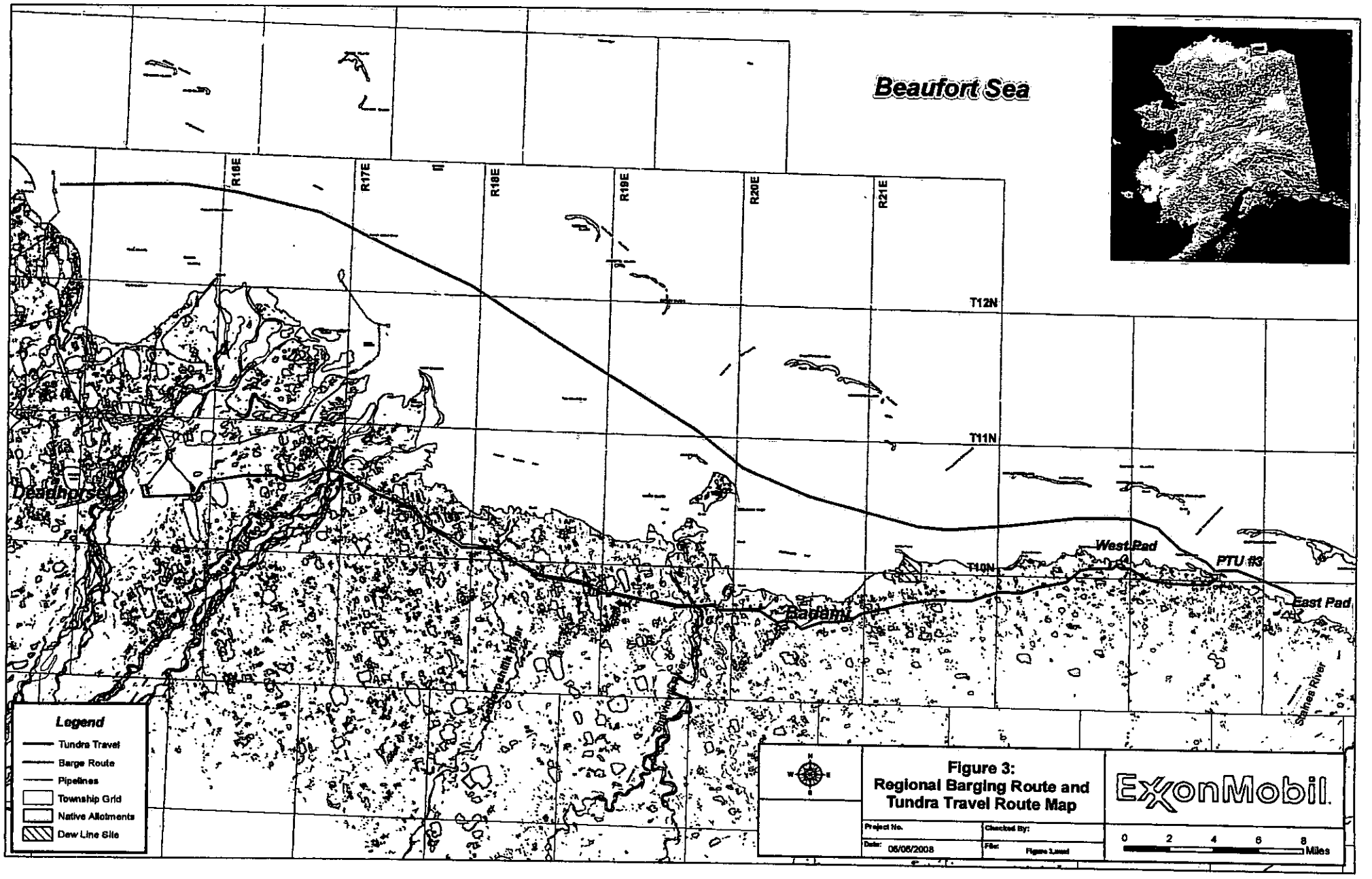
Transportation of heavy equipment and materials will be via barge transportation from the Prudhoe Bay West Dock with routing along the northern Beaufort Sea coast and off-loading on the gravel beach at the north end of the PTU #3 pad. Barge operations are anticipated to require approximately 23 round trips from West Dock for the movement of ice road construction equipment, temporary fuel storage tank facilities, work camp/crew quarters, aggregate material for pad preparation, and other necessary equipment and materials. Two deck barges (60' x 200' each) with accompanying tugs will be utilized for the marine transportation requirements.

Barge activities will be confined to timeframes that do not conflict with subsistence whaling activities. The barging schedule will be coordinated with the North Slope Borough and communities of Kaktovik and Nuiqsut to avoid subsistence conflicts. The planned barging route from West Dock to the PTU #3 location is shown in Figure 3.

Access to the PTU #3 site will be controlled by onsite personnel. General public use of the area is limited to the occasional local hunters that come through the area by boat in summer and who will be able to stop and visit the location.

4.3 Onsite Personnel

Initial survey and tank inspection will consist of up to eight (8) personnel that will commute by helicopter from the Deadhorse/Prudhoe Bay area for up to six (6) days. Remaining activities will require up to 20 personnel for equipment staging and site preparation. These personnel will be housed in the crew camp facilities that will be barged to the site during this time period.


Beaufort Sea
R16E
R17E
R18E
R19E
R20E
R21E
T12N
T11N
T10N
Deadhorse
Prudhoe Bay
Kadleroshilik River
Sagavanirktok River
Badami
West Pad
PTU #3
East Pad
Saimes River
Legend
Tundra Travel
Barge Route
Pipelines
Township Grid
Native Allotments
Dew Line Site
Figure 3:
Regional Barging Route and
Tundra Travel Route Map
Project No.
Checked By:
Date: 06/06/2008
File:
Figure 3.mxd
ExxonMobil
0 2 4 6 8
Miles

Once equipment staging, site preparation and tank installation is complete, a temporary camp for approximately two personnel will be staffed for maintenance and security purposes.

4.4 Camp Facilities

A 30 man camp will support the summer operations and will be subsequently used by the ice road construction personnel starting in November. The camp will have primary and backup generators for power of approximately 150 KW each. Fuel for these generators will be stored in the onsite fuel tanks that are to be installed and in generator day tanks. Treated camp wastewater will be discharged to the tundra in accordance with NPDES Permit No. AKG-33-0000. Sewage and sewage sludge disposition will be determined after selection of the specific camp facility by the ice road contractor. Depending on the unit selected, sludge may be incinerated on site in "Incin-o-lets" toilet units or collected and shipped offsite for disposal in the Prudhoe Bay area. Trash will be stored indoors and backhauled to Deadhorse or incinerated onsite to minimize the potential for wildlife attraction. Camp water during the summer will be delivered to the site from water sources within the Prudhoe Bay area and held in camp tanks. Resupply of the camp water will be by barge transport. Following the completion of barging, camp water will be provided by helicopter until snowmobiles are able to access water supplies at the Alaska State C-1 water pit. Water may also be taken from lakes close to the drillsite. Lake and gravel pit water usage will be less than 500 gallons/day.

4.5 Equipment Staging and Site Preparation

The anticipated equipment to be staged at the PTU #3 location is listed in Table 2. Prior to transport to the PTU #3 location, the equipment will be serviced in Deadhorse and any identified maintenance issues that could result in leaks or faulty operation will be addressed and remedied.

Table 2: Equipment to be Staged at PTU #3 Location.

Equipment	Quantity	Planned Use
Compactor	1	Gravel placement
Fuel tanks, 18,000 gallons each	9	Fuel storage
30 man camp	1	Quarters
Skid camp	1	Security crew quarters
Tucker Sno-Cat	1	Ice Road Construction
TV-145 Pumper	1	Ice Road Construction
966 Loader / Snowblower	1	Ice Road Construction
Service / Mechanic truck	1	Ice Road Construction
150 bbl water truck	1	Ice Road Construction
325 bbl water tanker	1	Ice Road Construction
Fuel truck	1	Ice Road Construction
Warehouse building	1	Maintenance, storage

Emergency shelter/oil spill container	TBD	Ice Road Construction
Light plants, heaters, other miscellaneous equipment	TBD	Ice Road Construction

Site preparation activities may include placement and compacting of approximately 2,000 cubic yards of gravel within the existing gravel footprint to provide a smooth working surface and level area for the subsequent placement of the drilling rig. Actual gravel importation quantities will be determined from site survey activities in June. Gravel will be obtained from an existing permitted pit in the Prudhoe Bay area under an existing contractor material sales contract. Additional site preparation activities include installation of temporary fuel tanks, staging of approximately 160,000 gallons of fuel, erection of a material and equipment shelter building, installation of a cellar(s) and conductor(s), and facilitate removal of existing onsite equipment. The planned location for the equipment and materials is shown in Figure 4.

4.6 Fuel and Hazardous Substances Control

Onsite equipment will use diesel fuel, hydraulic oil and lubricants for operations. Approximately 10,000 gallons of diesel fuel will be stored onsite in a tanker truck(s) to support initial site set up and preparation. An undetermined minor volume of commercial lubricants will also be located on site in secured indoor containers.

ExxonMobil plans to install temporary fuel storage tanks with an aggregate storage volume of 160,000 gallons in a lined containment area. The tanks will be double wall, API 653 certified fuel tanks. When this temporary storage facility is completed, a fuel barge will be dispatched to fill the tanks with diesel. This volume will be sufficient for the equipment staging and site preparation activities during the summer and ice construction operations in November and December 2008. After construction of the ice road, the fuel tanks will store fuel for drilling operations. The tanks will comply with ADNR, ADEC, EPA and North Slope Borough requirements. Fuel transfers from barges will comply with USCG requirements.

A Spill Prevention Control and Countermeasure (SPCC) Plan for the completed temporary tank facility and other onsite fuel storage containers will be prepared and submitted to the EPA. These temporary fuel storage facilities will also be included in the Oil Discharge Prevention and Contingency Plan (ODPCP) which will be prepared to cover the drilling activity. Containment for the temporary tank farm will consist of lined and built up cells capable of containing 110% of the storage capacity of the largest emplaced tank. The tanks will be inspected on a daily basis in accordance with the SPCC Plan requirements to verify tank integrity.

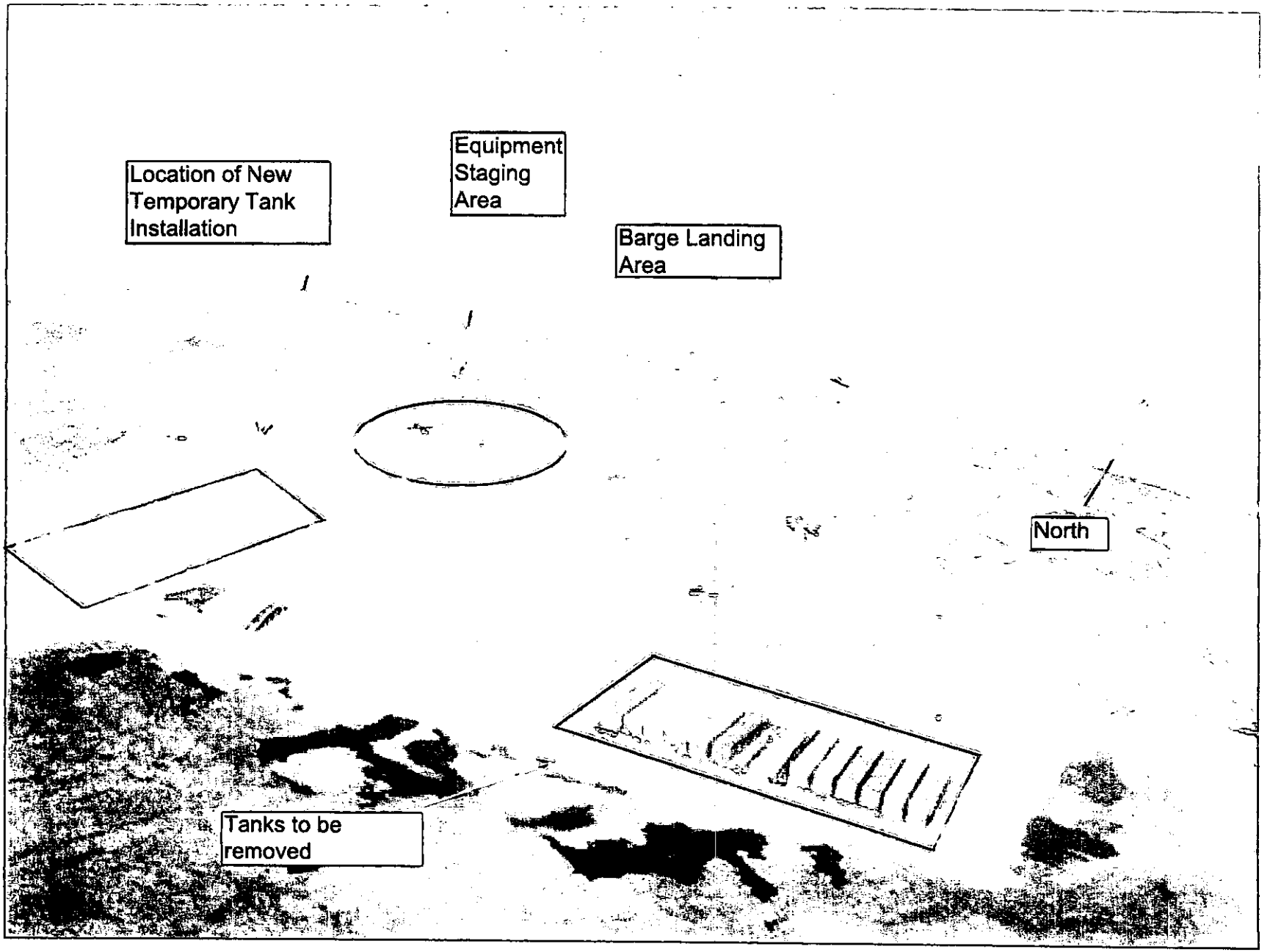


Figure 4: PTU #3 Equipment and Material Placement Areas

5. Project Representative and Contact

An ExxonMobil designated project representative will be onsite at all times during operations. Twenty-four hour phone service will be available at Deadhorse and/or the PTU #3 camp. The following persons or positions are designated contacts for the project.

Table 3 – ExxonMobil Contact Personnel

Name	Title	Phone/Email	Mobile Phone
Mike Flynn Joseph Adami	Construction Supervisors	TBD Joseph.adami@fairweather.com	 907-244-9016
William C. Pecor	Point Thomson Coordinator	907-564-3766 william.c.pecor@exxonmobil.com	
Rob Dragnich	Permitting Coordinator	907-564-3711 rob.g.dragnich@exxonmobil.com	907-830-4796

NORTH SLOPE BOROUGH
PLANNING DEPARTMENT Johnny L. Aiken, Director

P.O. Box 69
Barrow, Alaska 99723

Phone: (907) 852-2611
(907) 852-0320
Fax: (907) 852-0322

July 31, 2008

RECEIVED
AUG 7 2008
C.A. Haymes
Production Alaska

Exxon Mobil Corporation
C/O Craig A. Hayme, Alaska Production Manager
P.O.Box 196601
Anchorage, Alaska 99519-6601

RE: NSB 08-408.Conditional Use Permit, Point Thompson Equipment Staging and Site Preparation, Umiat Meridian, Point Thompson Unit #3, T10N, R23E, Section 34, Resource Development District

Dear Mr.Hayme:

We have completed our review of your request to stage equipment and fuel for use in ice road construction and other operations, associated with site preparation at the existing Point Thomson Unit #3 (PTU #3) gravel pad. This initial phase of drilling operations for the Point Thompson Drilling Program, which includes setting two conductors at the (PTU #3) pad, will take place in August and September 2008. (See attached letter).

Summer studies:

1. Bathymetry studies in the area of the proposed barge landing at the PTU #3 pad.
2. Topographic surveying of the (PTU #3) pad.
3. Geotechnical analysis (soil borings and ground penetrating radar) of the PTU #3 pad.
4. Inspection of fuel tanks and other equipment stored on the pad by another operator in preparation for removing those items.
5. Archeological studies to potential water sources along the coastline between the Prudhoe Bay area and Point Thompson area.
6. Bathymetry survey between the Endicott causeway and the PTU #3 pad.
7. Inspection of exploration drill sites in the Point Thompson area to plan well inspections and remedial work.

The project is set to commence on August 2008, with a completion date of January 31, 2009.

We have determined that your proposed activity is consistent with Title 19 and the North Slope Borough Coastal Management Program provided that you comply with the following conditions:

PROJECT SPECIFIC STIPULATIONS:

1. Exxon Mobil Corporation will submit results of any records of studies it has done on wildlife that may be affected by its activities (i.e., marine mammal observer reports) to the NSB Wildlife and Planning Departments as soon as the reports are available, but no later than July 1, 2009. This requirement does not pertain to engineering or geotechnical data not directly related to wildlife.

2. Exxon Mobil Corporation must obtain a non-objection letter from the Land Owner and must send a copy to the NSB Planning Department. To the extent the land is owned by the Alaska

Department of Natural Resources (ADNR), an ADNR permit specific to this project will suffice.

3. Permittee shall conduct activities in accordance of "economic opportunity policies" that reflects the codified section of Title 19, NSBMC 19.70.030.

4. Permittee shall consult the villages of Kaktovik and Nuiqsut regarding developments in the project, and adjust the project accordingly if need be, in response to reasonable concerns of the villages of Kaktovik and Nuiqsut. NSBMC 19.70

5. Exxon Mobil Corporation shall develop a GPS tracking system (i.e., navigation logs with coordinates in real time) for all vessels to help minimize subsistence activity conflicts. NSBMC 19.70.050 (D) (1), NSBCMP 2.4.3 (d).

6. Exxon Mobil Corporation shall have signed Conflict Avoidance Agreement (CAA) with Alaska Eskimo Whaling Commission (AEWC), the Whaling Captains of Kaktovik and Nuiqsut prior to commencement of barging activities. NSBMC 19.70.040 (E)

7. Exxon Mobil Corporation shall develop a subsistence mitigation program prior to the barging activities for the villages of Kaktovik and Nuiqsut to be implemented by the respective villages. NSBMC 19.70.050 (D) (1), (F) NSBCMP 2.4.3 (f). Exxon Mobil Corporation may satisfy this requirement by agreeing to (1) provide emergency assistance to subsistence users in the event of inclement weather; (2) assist with transportation of harvested whales to shore if required; (3) reserve 1,000 gallons of fuel for subsistence users in the event that displacement of subsistence resources requires users to travel farther in search of resources.

8. This permit shall not become effective until an ACMP review consistency determination (if required) is complete, and Alaska Department of Environmental Conservation (ADEC) approves the applicant's C-Plan (if required).

9. Exxon Mobil Corporation shall have Tribal Consultation on Regional level (with ICAS) and Tribal Entities of Kaktovik and Nuiqsut.

10. Exxon Mobil Corporation shall adhere to all conditions set forth in the July 25, 2008 Staff Recommendation.

PROJECT STIPULATIONS:

1. A Status Report for the activities conducted under this approval must be filed with the Planning Department on May 1 and January 1 each year, from the date this approval is issued and until a Completion Report is filed with the Division. Failure to file status reports or the completion report in a timely manner may result in revocation of this approval. The completion report shall contain a statement describing any clean-up activities conducted specific to the phase of activity, the method of debris disposal, and a narrative description of known incidents of surface damage.

2. The applicant shall defend, indemnify and hold the North Slope Borough harmless from any and all claims, damages, suits, losses, liabilities and expenses related to the injury to or death of persons and damage to or loss of property arising out of or in connection with the entry on and use of property within the North Slope Borough boundaries authorized under this approval by the applicant, its contractors, subcontractors and their employees.

3. Amendments and modifications to this approval require 15-day advance notice and must be approved in writing by the Land Management Administrator.

4. The applicant shall inform and insure compliance with any and all conditions of this approval by its

employees, agents and contractors, including subcontractors at any level.

5. Rehabilitation, Restoration, Remediation, and Cleanup shall be completed to the satisfaction of the Administrator.

6. Tundra travel on or across Native land claims is not authorized under this approval. The applicant shall consult Bureau of Land Management master title plats prior to any exploration or drilling to ensure surface operations do not cross or impact existing or pending native allotment claims. The purpose of this stipulation is to avoid trespass and/or damage to in-holdings on North Slope Borough-owned lands.

7. In the event of a spill, Exxon Mobil Corporation shall contact the following agencies; National Response Center (NRC): phone (800) 424-8802; ADEC – Business Hours phone (907) 451-2121, fax (907) 451-2362; ADEC –after hours and weekends call AK STATE TROOPERS (800) 478-9300; Alaska Department of Natural Resources – Oil Spill Hotline phone (907) 451-2678, fax (907) 451-2751; North Slope Borough (NSB) (907) 852-0440 (24-hour phone), fax (907) 852-5991; NSB Disaster Coordinator (Pat Patterson) phone (907) 852-2822, (907) 852-6111 (24 hours on call) fax (907) 852-2475; US Coast Guard phone (907) 271-6700, fax (907) 271-6765; US Fish and Wildlife Service (spills that may impact ANWR) phone (907) 456-0250, fax (907) 456-0248; BLM Anchorage – NPR-A phone (907) 267-1210; fax (907) 267-1304; BLM Fairbanks – NPR-A (Don Meares) phone (907) 474-2306, fax (907) 474-2386. The Northern Regional office of the Division of Mining, Land and Water shall be supplied with all follow-up incident reports.

8. The applicant shall hold well advertised meetings in Kaktovik and Nuiqsut to ensure that the activities do not conflict with subsistence uses of the area near Kaktovik and Nuiqsut. These meetings are intended to engage the subsistence hunters that use the areas that you plan to explore. If there are potential conflicts, you will develop a plan to mitigate those conflicts. Any plan must be approved by the NSB Planning Department. In the event that a meeting is not held prior to permit approval, Exxon Mobil Corporation shall provide the Planning Department (c/o Waska Williams) with an update of concerns raised by villagers, and Exxon Mobil Corporation's efforts to mitigate any conflicts.

OIL SPILL PREVENTION AND RESPONSE STIPULATIONS FOR FUEL STORAGE:

1. The permittee is reminded to conform to the provisions of NSBMC Chapter 19.70 for industrial development. The proper design, installation and operation of fuel storage, transfer and loading facilities are a condition of this permit. NSBMC 19.70.

2. Impermeable lining and diking is required for fuel storage facilities with a capacity greater than 660 gallons. The facility must be designed to hold 110% of the contents of the largest tank in the containment area, plus additional capacity to account for annual average precipitation. An engineer must certify that the lining and diking system meets these standards.

An oil spill prevention and response plan that provides for sufficient trained personnel and oil spill response equipment to respond to the worst-case discharge at this pad, must be in place prior to operating this pad.

SPILL RESPONSE TACTICS:

Compliance with the following is required:

- Place drip pans under vehicles parked over 5 minutes or during refueling
- During bulk fuel transfers, placement of vinyl liners with foam dikes with a capacity of 25 gallons under all valves or connections to diesel fuel tanks that are not within secondary containment.

Pink dye will be added to all diesel fuel prior to transporting to the field crews to aid in spill detection. All spills will be reported and cleaned up by Exxon Mobil Corporation.

HELICOPTER STIPULATIONS:

1. Exxon Mobil Corporation will communicate with the City of Kaktovik and City of Nuiqsut prior to conducting the 2008 study work in order to avoid impacting subsistence activities. NSBMC 19.70.050 (L), NSBMC 19.70.050 (J) 3.

2. Exxon Mobil Corporation shall employ subsistence representatives to assist in minimizing impacts to wildlife and local subsistence activities. Exxon Mobil Corporation is encouraged to hire its representatives from the Villages of Kaktovik and Nuiqsut (or other NSB villages if no one from Kaktovik and Nuiqsut is available). NSBMC 19.70.050 (L) 4, NSBMC 19.70.050 (J) 3.

3. Helicopter use in support of study activities shall maintain at minimum, 1,500 feet of altitude to avoid harassment over concentrations of 25 or more caribou, and over hunters in the area in of pursuit of subsistence animals, except during takeoffs and landings or as required for human safety. NSBMC 19.70.050 (L) 4, NSBMC 19.70.050 (J) 3.

4. To minimize impacts to subsistence activities, a helicopter route shall be established from routine site locations. Exxon Mobil Corporation shall not deviate from that prescribed route, unless avoidance of a large concentration of animals is occurring, or for human safety. The helicopter route for this project is limited to the study area. NSBMC 19.70.050 (L) 4, NSBMC 19.70.050 (J) 3.

5. Airports and helicopter pads are required to be sited, designed, constructed and operated in a manner that minimizes their impact upon wildlife. NSBMC 19.70.050 (L) 4, NSBMC 19.70.050 (J) 3. Vehicles, vessels, and aircraft that are likely to cause significant disturbance must avoid areas where species that are sensitive to noise or movement are concentrated at times when such species are concentrated. Concentrations may be seasonal or year-round and may be due to behavior (e.g., flocks or herds) or limited habitat (e.g., polar bear denning, seal haulouts). Horizontal and vertical buffers will be required where appropriate. Concern for human safety will be given special consideration when applying this policy. NSBMC 19.70.050 (I) 1.

SUBSISTENCE MITIGATION PROGRAM:

1. Exxon Mobil Corporation shall contact the NSB Land Management Administrator to prepare and implement a Subsistence Mitigation Program to mitigate adverse impacts to subsistence activities. Pursuant NSBMC 19.30.070 (A) (1), (2)

Exxon Mobil Corporation shall hire local subsistence representatives (preferably someone who knows the area and cabin or native allotment owners located in the general area) to work as a guide during construction and to monitor the activities of the proposed project construction.

ECONOMIC STIPULATIONS:

1. The applicant is advised that the Borough strongly encourages those seeking to do business on the North Slope to conduct their operations in a manner, that enhances locally-based economic and employment opportunities for Borough businesses and residents. In order to ensure that these goals have been considered in the design and administration of project operations the applicant shall submit an economic opportunity plan to the Land Management Administrator that outlines, in detail, how the policies outlined below and codified at **NSBMC 19.70.030** have been addressed.

Developers are encouraged to conduct operations to the extent practical and feasible:

A. Using suppliers or subcontractors from within the Borough for work, which can be accomplished competitively by local private businesses or regional or village corporations.
B. Employing local Borough residents, unless residents of the local villages express no interest in the work.
C. Utilizing flexible employment procedures, which allow the pursuit of subsistence opportunities by Borough resident employees.
D. Incorporating job-training programs targeting Borough residents.

1. The applicant shall present the economic opportunity plan to the Land Management Administrator for consideration prior to commencement of operations.

GRAVEL STIPULATIONS:

Exxon Mobil Corporation shall not expand the gravel pad already in the project area beyond its existing surface area, but may add gravel layers over the existing pad for maintenance.

The lands and facilities subject to this permit must be maintained in good condition and in conformance with the terms and conditions of this permit. You are not relieved of this requirement if you abandon the permitted activity, although you may make a good faith transfer to a third party. Should you wish to cease to maintain the authorized activity or should you desire to abandon it without a good faith transfer, you must obtain approval from the Land Management Administrator or his designated representative, which may require restoration and or re-vegetation of the area.

GENERAL STIPULATIONS

1. The permittee is reminded to conform to the provisions of NSBMC Chapters 9.08, 9.12 and 9.16 regarding solid and sanitary waste collection/disposal and potable water. The proper and lawful disposal of waste in an environmentally sound manner is a condition of this permit. If the permittee does not anticipate using facilities operated or approved by NSB, the Alaska Department of Environmental Conservation at (907) 269-7500 shall be contacted for an approved sanitary and solid waste disposal plan as well as a plan for potable water for temporary and permanent facilities described in this permit. A copy of the approved plans shall be submitted to the North Slope Borough Permitting and Zoning Division to become a part of this permit file. NSBMC 19.70.050(I)(4)&(5)

2. Should any cultural, archeological or paleontological resource materials (including, but not limited to artifacts, house mounds, grave sites, ice cellars, and fossilized animal remains) be discovered in the course of activities conducted under this permit, the site shall not be disturbed and the North Slope Borough Inupiat History, Language and Culture Commission shall be promptly notified at (907) 852-0422. NSBMC 19.70.050(E) through (G)

3. All oil and other hazardous material spills over 55 gallons shall be reported immediately to the NSB by telephoning (907) 852-0440. The follow-up written report will be faxed to the NSB Permitting and Zoning Division fax (907) 852-5991and the NSB/OSEA office at (907) 852-0327. A report of all spills shall be submitted to our office on a weekly basis. A sufficient amount of absorbent materials shall be on hand at all times in the event of any fuel, oil, or chemical spills. Spills shall be cleaned up as soon as possible. NSBMC 19.50.030(I)

4. The Land Management Administrator may require that his authorized representative be on-site during any operations conducted under this permit. NSBMC 19.30.100

5. Within the constraints of federal, state and local law, the permittee and its agents are encouraged, through a voluntary affirmative action program, to hire and train residents of the North Slope Borough.

In order to comply with this stipulation the permittee and its agents shall contact the Mayor or City Manager and the village corporation of any village most affected by this permit. In this case contact the village of Nuiqsut at (907) 480-6727 and Kuukpik Corporation at (907) 480-6220 to determine if there are qualified people available or people who could be employed for on-the-job training. NSBMC 19.70.030

6. The permittee shall comply with all local, state and federal laws and permits applicable to this project. NSBMC 19.30.100

7. This permit is valid for the duration of the existence of the development and the developer's compliance with the terms and conditions herein. This permit automatically expires within twelve months of approval if no actual development has commenced. Failure to comply with the conditions of this permit could result in immediate revocation of this permit. NSBMC 19.30.070

8. The permittee shall inform and ensure compliance with these stipulations by its agents and employees. This permit shall be posted in a conspicuous place for these individuals to see. NSBMC 19.30.100

Our review was conducted in accordance with NSBMC, Title 19. The purpose of our review is to ensure that your project achieves the goals and objectives, and implements the policies, of the Borough Comprehensive Plan, including its Coastal Management Program; to ensure that the future growth and development of the Borough is in accord with the values of its residents; to identify and secure, for present and future residents, and beneficial impacts of developments; to identify and avoid, mitigate, or prohibit the negative impacts of development; and to ensure that future development is of the proper type, design and location, and is served by a proper range of public services and facilities.

If your proposal is changed from what is represented in your application dated June 18, 2008, you must contact this office prior to the change being implemented in order to determine whether the enclosed authorization requires an amendment.

By copy of this letter, we are advising the below-listed individuals and their respective agencies that the proposal, as conditioned, complies with our District Coastal Management Program, and Comprehensive Plan.

Any aggrieved person, including the developer/applicant, may appeal the decision of the Land Management Administrator by serving written notice to the secretary of the North Slope Borough Planning Commission and the developer/applicant within 30 days of receiving this decision. The notice shall state the reasons why the appellant believes the decision of the Land Management Administrator is improper.

If you should have any questions, please contact, Waska A. Williams Jr., Land Management Specialist at (907) 852-0440 or by email at waska.williams@north-slope.org.

Sincerely,

Willard Bodfish

Paul Bodfish Sr.,
Chairman

CC: NSB Planning Commission
Craig George, NSB Wildlife (bowhead/fish)
Robert Suydam, NSB Wildlife (Birds/Bowhead/Beluga)
Harry Brower, Jr., NSB Wildlife (Subsistence/Whaling Captain)
Theresa Judkins, Director, AEWC
Doreen Lampe, Lands Officer, Planning, NSB
Linda Chrestman, Deputy Assessor, Assessing Division, NSB
Nora Jane Burns, Kaktovik Village Coordinator, NSB
Dorcas Tukle, Nuiqsut Village Coordinator, NSB
Harry Bader, AkDNR, Fairbanks

N08-408
Point Thompson Equipment Staging and Site Preparation
Exxon Mobil Corporation

Dennis Gnath, JPO Liaison, DNR, OHMP, Anchorage
Robert McLean, Area Manager, DNR, OHMP, Fairbanks
Larry Bright, USDI/F&WS, Fairbanks
Jeanne Hanson, USDI/NMFS, Anchorage
Josephina Delgado-Plikat, AkOMB/DGC, Juneau
Bill Smythe, AkDEC, Fairbanks
Mike Holley, Don Rice, US Army COE
Price Leavitt, Executive Director, Inupiat Community of the Arctic Slope
Lloyd Paningona, Realty Director, Inupiat Community of the Arctic Slope
Martha Falk, Dept. of Natural Resources, Inupiat Community of the Arctic Slope
Roberta Quintavell, President, Arctic Slope Regional Corporation
Anthony Edwardsen, President, Ukpeagvik Inupiat Corporation
Phillip Tikluk, Jr., President, Kaktovik Inupiat Corporation
Isaac Nukapigak, President, Kuukpik Village Corporation
Mike Stotts, Mayor, City of Barrow
Charles E. Hopson, EPA Program Manager Native Village of Barrow
Freddie Aishanna, Mayor, City of Kaktovik
Sam Kunaknana, Mayor, City of Nuiqsut
Katie Farley, State Pipeline Coordinators Office/ JPO, SOA
Leonard Lampe, President, Nuiqsut Tribal Council
Arctic Area Manager, USDI/BLM
Steve Schmitz, AkDNR/DO&G, Anchorage
Files

N08-408/JLA/gb/ww

Land Management Regulations Permit Application

NORTH SLOPE BOROUGH
DEPARTMENT OF PLANNING AN DCOMMUNITY SERVICES
PERMITTING AND ZONING DIVISION

Permit Number 08-408 Permit Type _____

Applicant **Exxon Mobil Corporation** Date **June 11, 2008**

Address **P.O. Box 196601** State ID _____

Anchorage, AK Phone **907-564-3711**

Contact Person **Robert G. Dragnich** Project Name **Point Thomson Equipment Staging and Site Preparation**

Location (TRS) **70° 10' 20.06"N / 146° 15' 20.62" W** Unitized Field Name

Zoning District _____ and Pad Location **Point Thomson Unit #3**

Proposed Start Date **July 15, 2008** Completion Date: **January 31, 2009**

Proposed Development **Pad preparation, equipment staging including fuel tanks and fuel for later work**

Purpose of Development **See attached Project Description.**

☐ Fill/Dredge Material _____ Acres _____

☐ Oil and Gas Wells Number of New Surface Holes: _____

☒ Temp. Water Use Source **Alaska State C-1 Gravel Pit** Access **Snowmobile**

Purpose **Fresh water for camp** Maximum Amount **<500 gpd**

☒ Off Road Travel: Period of Travel **Oct 1, 2008 – Jan 31, 2009** Equipment **Snowmobile**

Access to Site **Helicopter / Snowmobile**

☒ Fuel Storage Type **Diesel** Amount **160,000 Gallons**

Handling **Third Party Fuel Supplier. Double walled tanks in lined containment.**

☐ Hazardous Type _____ Amount _____

Materials Storage Handling _____

☒ Solid Waste Treatment **Backhaul to permitted facilities in Prudhoe Bay or incinerate on site.**

☐ Mining Mining Habitat _____

☒ Air Emissions Type **See Project Description** Amount **< 100 tons/yr**

☒ Noise/Vibrations Type **Heavy equipment, Helicopter** Amount _____

☐ Sensitive Habitat Floodplain _____ Shoreline _____

☒ Transportation Type **Helicopter, Snowmobile, Barging**

☐ Marine Tanker Facility ☐ Seismic Work ☐ Utility Development ☐ Recreational Development

☐ Causeway Construction ☐ Offshore Drilling ☐ Residential Development ☐ CD-ROM Included

☐ Airport or Helicopter Pad ☐ Oil Transport System ☐ Snow Removal

ATTACH TO THIS APPLICATION THE FOLLOWING:

-GENERAL VICINITY MAP
-SPECIFIC LOCATION MAP, INCLUDING NEARBY EXISITING DEVELOPMENT AND NATURAL FEATURES
-SITE SPECIFIC FOOTPRINT (IN ESRI SHAPE FILE FORMAT) ON A CD-ROM
-A DIGITAL GIS SHAPE FILE OR GEODATABASE OF THE PERMIT AREA WITH NO ATTRIBUTES. THE PROJECT SHOULD BE NAD 1927 ALASKA ALBERS OF GEOGRAPHIC
-DESIGN PLANS (PLOT PLAN), ELEVATIONS, CROSS SECTIONS, PROFILES, AS APPROPRIATE
-SUPPLEMENTAL INFORMATION, AERIAL PHOTOGRAPHS, STUDIES, ETC. (AS NEEDED)

SEND TO: NORTH SLOPE BOORUGH, LAND MANAGEMENT ADMINISTRATOR
PO BOX 69
BARROW, ALASKA 99723
PHONE: (907) 852-0320

I HEREBY CERTIFY THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE

Authorized Signature — Date: 6/12/08

CRAIG HAYNES — Name

ALASKA PRODUCTION MANAGER — Title

FEE PAID

- ☐ SPECIAL PLANNING COMMISSION MEETING $12,000.00
- ☒ DEVELOPMENT PERMIT...$2,000 + $500 PER WELL
- ☐ ADMINISTRATIVE APPROVALS ...$1500.00
- ☒ CONDITIONAL DEVELOPMENT PERMITS...$3,000.0

AMOUNT PAID $2,000

DECISION

☐ ADMINISTRATIVELY APPROVED

This is a minor amendment to a development permit or is a use of land listed under administrative approvals for this zoning district.

☐ REZONING APPROVED

This proposed development substantially complies with the Master Plan, and a use permit is issued, conditioned on compliance with all relevant Master Plan conditions, lease stipulations and provisions of state and federal law and permits served there under.

☐ DEVELOPMENT PERMIT APPROVED

The proposed development meets all applicable mandatory Policies, represents the Developer's best efforts to implement all relevant best efforts and minimization policies, and as long as any conditions set forth in the accompanying letter are complied with, will represent a net public benefit. (See accompanying letter)

☑ CONDITIONAL DEVELOPMENT PERMIT APPROVED

This is a use of land that is listed as a conditional development for this zoning district or has been elevated by the Land Management Administrator to the Planning Commission.

☐ PERMIT DENIED

(See accompanying letter)

Land Management Administrator — Date: 6-1-08

If you wish to appeal this decision, use must submit written notice to the secretary of the Planning Commission prior to the next regularly scheduled meeting, stating the policy or policies in questions and the reason you believe the decision is incorrect.

Joint House Judiciary & Resources
Committee hearing
12-01-08

escopeta oil
Oil & Gas Development

November 19, 2008

Kevin Banks, Acting Director
State of Alaska
Division of Oil and Gas
550 W. 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

Re: Kitchen Unit Plan of Exploration
Request for Amendment of the Drilling Commitment Dates

Dear Mr. Banks:

Reference is made to that certain Kitchen Unit Agreement, approved by the Department of Natural Resources ("DNR"), effective January 31, 2007. The Kitchen Unit includes two prospects known as the Kitchen Prospect and East Kitchen Prospect, which include sixteen (16) State of Alaska Oil and Gas Leases ADL-389189, ADL-389190, ADL-389191, ADL-389192, ADL-389193, ADL-389914, ADL-389915, ADL-389917, ADL-389918, ADL-389919, ADL-389924, ADL-389925, ADL-389926, ADL-390548, ADL-390554, and ADL-391106.

The Kitchen Unit Agreement ("KHU") contained work/drilling commitments detailed in Exhibit 'G', the Initial Plan of Exploration. A request for amendment to the Plan of Exploration was subsequently submitted to the DNR on September 25, 2007. This request was denied on December 31, 2007 and the DNR issued a notice of default of the KHU. The notice of default recognized that Escopeta Oil Company, LLC ("EOC") had made "significant efforts and investments to bring a jack up rig to the Cook Inlet" and provided EOC the opportunity to cure the default under 11 AAC 83.374(b) by effectively deferring the KHU drilling deadline from December 31, 2007 to December 31, 2008, as requested in EOC's September 25, 2007 letter.

As the Division of Oil and Gas is aware, EOC and Pacific Energy Resources, LTD ("PERL") have been diligently working towards the acquisition of a suitable jack-up drilling rig, as well as an acceptable heavy-lift vessel contract for the rig's delivery to the Cook Inlet. Escopeta had begun efforts to acquire and deliver a jack-up drilling rig to the Cook Inlet back in mid-2005, before the formation of the KHU. Needless to say, this endeavor has been a complicated and costly undertaking for an independent oil and gas company.

Immediately after the acquisition of the Forest Oil Company holdings in Alaska by PERL, PERL began their quest for a jack-up drilling rig to drill the Corsair Unit prospect. Because both EOC and PERL had a common goal in the acquisition and delivery of a jack-up rig to the Cook Inlet, our two companies began coordinating efforts in the search for a suitable jack-up drilling rig and heavy-lift vessel. Additionally, EOC and PERL came to a mutually beneficial arrangement and began sharing and reprocessing seismic data to better define both unit areas.

The efforts by both EOC and PERL have now come to fruition after lengthy negotiations and considerable financial expenditures and commitments. EOC recognizes and appreciates the patience and cooperation of the DNR and the conscientious attention and assistance that has been provided to both EOC and PERL throughout this significant undertaking.

9020 Kirby, Suite 440 • Houston, Texas 77054 • Office 713.623.2019 • Fax 713.439.226 • e-mail escopeta@swbell.net

On April 30, 2008, PERL submitted to the DNR evidence of a drilling rig contract between PERL and Blake Offshore, LLC, evidence of the required down payment, and a commitment from Blake Offshore, LLC ("Blake") to provide the Blake 151 jack-up drilling rig to the Cook Inlet for drilling within the Corsair Unit no later than June 30, 2009.

On November 17, 2008, EOC and PERL entered into a rig sharing agreement for the Blake 151 offshore jack-up drilling rig. This agreement recognized the cost and risk sharing opportunities by both companies and provided for the fair and equitable sharing of the jack-up drilling rig, thereby providing for the most expedient exploration and development possible for the two companies prospects.

On October 31, 2008, PERL delivered to the DNR evidence of an executed heavy-lift vessel contract between EOC, PERL, and Offshore Heavy Transport AS ("OHT") for the use of the M/V Heavy Lift Falcon for the delivery of the Blake 151 jack-up drilling rig.

The stage has now been set by EOC and PERL for the delivery of the first jack-up drilling rig in the Cook Inlet for over two decades. This significant milestone marks the beginning of an exciting new era in offshore exploration and development in the Cook Inlet, not only for EOC and PERL, but for all offshore oil and gas lessees.

Pursuant to 11 AAC 83.343(e), EOC hereby respectfully requests the amendment of the approved KHU Plan of Exploration to allow for the successful exploration and development of the Unit. This amendment is necessary because it is impossible to drill the first exploratory well in the KHU by December 31, 2008, as indicated above. Attached and made a part hereto of the requested amendment is a draft three-year initial Plan of Exploration ("POE"). In accordance with 11 AAC 83.303, approval of this POE is in the best interests of the State of Alaska, the residents of Alaska, the energy consumers (private, commercial and industrial) in the communities along the rail-belt, all Cook Inlet offshore oil and gas lease holders, and the United States policies on domestic energy and natural resources.

Because EOC and PERL have shared their independent geologic and geophysical information and jointly developed there respective prospects within the Kitchen and Corsair units, a higher level of conservation of natural resources will occur. With both companies understanding their adjoining prospects and reservoirs, a global plan of exploration can be utilized. This "global plan" will allow both EOC and PERL to minimize economic and physical waste by the sharing of information, equipment, facilities, future infrastructure, and other mutually beneficial arrangements.

EOC has expended a very significant amount of financial and physical resources in the acquisition of the offshore leases, the acquisition and interpretation of the geologic and geophysical data, the delineation of the Kitchen and East Kitchen prospects, the four-year effort in obtaining a suitable jack-up drilling rig, the KHU formation, the multi-company negotiations and agreements, the procurement of a Jones Act Waiver, and the contract for a heavy-lift vessel. Accordingly, PERL has expended similar financial and physical resources. Approval of this requested amendment will protect the vested interests of both EOC and PERL by allowing for the execution of their plans and realization of their unwavering efforts to bring a jack-up drilling rig to the Cook Inlet.

A denial of the requested POE amendment would result in the enormous waste of financial and economic resources that has already been expended and committed by EOC, as well as by the State of Alaska in its review, adjudication, approval and oversight of the KHU and related drilling rig and heavy-lift vessel contracts.

A denial of the requested POE amendment would result in the potential waste of the physical resources of the State of Alaska. EOC has cooperated with PERL in the interpretation and development of the company's respective prospects. Another company may not be able to enjoy the

benefits of shared data and would most likely have to acquire, interpret and delineate the KHU prospect again, perhaps missing important structures or closures.

The State of Alaska's interests will be protected, as the KHU leases cannot be explored and developed faster by any other company other than EOC. The Blake 151 offshore jack-up drilling rig will not be available for any other company's use prior to the summer of 2010 because PERL will be utilizing it. There is no other drilling rig in the Cook Inlet suitable for offshore exploration of development drilling.

Should this requested POE amendment be denied and the KHU terminated, because of the time necessary to approve the 2009 Cook Inlet Areawide Best Interest Finding ("BIF"), the potential appeals and litigation associated with the BIF, the subsequent appeal of the KHU POE modification denial, and the necessary title research and time restraints necessary to include the KHU leases in a any upcoming lease sale, the KHU leases would not be available for competitive bid until the May 2010 lease sale, at the earliest. Should another company, or companies, be the successful bidder on these leases, it is unlikely the DNR would be able to issue the leases until after the 2010 offshore drilling season. Even if the leases could be immediately issued in May 2010, a new lessee, or lessees, would still have acquire and interpret the geologic and geophysical information to delineate the prospect, and would have to either acquire their own drilling rig and heavy-lift vessel, or they would need to negotiate a contract with PERL for the use of the Blake 151 jack-up drilling rig.

With all things considered, it will be impossible for any other company, or companies, to drill a well in the KHU leases during 2010, and very unlikely it would be able to occur earlier than 2012. Therefore, EOC is the only company poised to successfully drill a well in the KHU leases in 2010 or earlier, and it is in the State's best interest having EOC remain in control of the KHU leases and their exploration and development.

The environmental costs and benefits for retaining the KHU and approving the requested POE amendment to allow for the continued exploration and development of the Kitchen and East Kitchen prospects by the current Operator are significant. EOC has already completed all the necessary planning, geological and geophysical data interpretation, as well as initiating final preparation for the acquisition and delivery of the necessary offshore drilling rig. If the KHU were terminated and the leases eventually acquired by another company, or companies, duplicative environmental research and data acquisition and interpretation would have to be performed. Additionally, should multiple companies or individuals acquire the KHU leases in a subsequent lease sale, the required complex negotiations and new unit and operating agreements would delay any possible exploration. EOC as the sole Unit Operator and owner of the existing geological and geophysical data is the only company positioned to minimize additional environmental costs and maximize the benefits to the State of Alaska.

EOC already has established exploration and potential development plans for the KHU. Retaining EOC as Unit Operator by approving the requested POE amendment allows for the expedient exploration and development of the KHU oil and gas resources, thereby minimizing future economic costs to the State of Alaska and maximizing the benefits by an earlier first delivery of royalties from production. Should the requested POE amendment not be approved and the KHU terminated, a new Unit Operator would have to start from the beginning in their exploration and development plans, increasing the economic costs and delaying the delivery of first royalties to the State of Alaska.

As stated earlier, there has not been a jack-up drilling rig in the Cook Inlet for over two decades. During those two decades, not one offshore prospective oil and gas lease has been bid on by one of the three existing major oil and gas companies operating in the Cook Inlet. If one of these three existing major operators would have wanted to acquire any additional offshore oil and gas leases over the last two decades, they would have. Additional, all three of these major operators had the financial ability to also bring a jack-up drilling rig to the Cook Inlet, if they so desired, especially

during times of rising oil and gas prices. Now that the oil and gas prices are declining once again, it is unlikely these majors will express an interest. It is therefore up to the joint efforts of the independent oil and gas companies to bring such a drilling rig to the Cook Inlet.

With declining oil and gas prices and Cook Inlet oil and gas reserves, it is important that the State of Alaska foster and encourage all existing opportunities it has towards the exploration and development of its oil and gas resources. Denial of this requested POE amendment may result in the inability of the KHU resources to be timely explored and developed. In fact, a denial may have a trickle-down effect on the overall economics and justification for bringing a jack-up drilling rig to the Cook Inlet all together.

The opportunity for a jack-up drilling rig to be successfully delivered to the Cook Inlet is here, an event long overdue and a result of the diligent efforts of EOC and PERL. It is in the best interest of the State of Alaska, and its residents, to continue the good faith negotiations which will allow EOC, as well as PERL, to fulfill their exploration and development plans, thereby providing the State of Alaska royalties on the oil and gas production from the Kitchen and East Kitchen prospects at the earliest date possible.

Accompanying this request is the aforementioned Draft Revised Initial Plan of Exploration (Exhibit G to the Unit Agreement), the jack-up drilling rig contract between PERL and Blake, the rig sharing agreement between EOC and PERL, and the heavy-lift vessel contract between EOC, PERL and OHT. The drilling rig contract, rig sharing agreement and heavy-lift vessel contract are delivered under separate cover and considered commercial and proprietary in nature and are requested to be held CONFIDENTIAL under 11 AAC 82.810.

Should the Department of Natural Resources wish to discuss this request in person, prior to the issuance of a decision on the request, Escopeta Oil Company, LLC would accommodate such a request. Any such meeting would be beneficial for Pacific Energy Resources, LTD to attend as well. If you have any questions, please feel free to contact me immediately at my Houston office: (713) 623-2219, my cell phone at: (713) 828-7243, or by e-mail at escopeta@swbell.net.

Respectfully Submitted By,

Danny S. Davis
President

Attachments: Draft Revised Initial Plan of Exploration
Transmittal Letter of Confidential Information
Jack-up Drilling Rig Contract
Heavy-Lift Vessel Contract
Rig Sharing Agreement

escopeta oil

Oil & Gas Development

WORKING DRAFT - This is a working draft prepared for the State of Alaska, Dept. of Natural Resources, Division of Oil and Gas and represents no commitment.

Kitchen Unit
Revised Exhibit G, Initial Plan of Exploration

The Unit Operator, Escopeta Oil Company, LLC (EOC), shall complete an initial Three-Year Plan of Exploration for the Kitchen Unit (KHU), effective January 1, 2009 to December 31, 2011.

2009 Year-One, Obtain all permits necessary for the drilling of one exploration well within either the East Kitchen or Kitchen Prospects:

1. By December 31, 2009 EOC shall obtain all necessary regulatory permits and authorizations necessary for the drilling of an Exploration Well to either East Kitchen #1 or Kitchen #1 to a bottom hole location in either ADL #389926 or ADL# 389924, and as described in Table #1, to a minimum depth of between 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations.

2. If EOC fails to obtain the necessary permits and authorizations as described in item # 1 above by December 31, 2009, the KHU will automatically terminate, and EOC shall pay the state $ xxx *(amount to be determined and under review)* for potential unrealized bonus payments that might have been received on expired leases (11520 acres in ADL's 389189, 389190, 389191, 389192, 389193) in the KHU in the planned May, 2010 Cook Inlet lease sale.

2010 Year-Two, Drill one exploration well in either the East Kitchen or Kitchen Prospects:

1. By December 31, 2010 EOC shall drill an Exploration Well to either East Kitchen #1 or Kitchen #1 to a bottom hole location in either ADL #389926 or ADL# 389924, and as described in Table #1, to a minimum depth of between 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations.

2. If EOC fails to drill an Exploration Well as described in item # 1 above by December 31, 2010, the KHU will automatically terminate, and EOC shall pay the state $ xxx *(amount to be determined and under review)* for potential unrealized bonus payments that might have been received on expired leases (11520 acres in ADL's 389189, 389190, 389191, 389192, 389193) in the KHU in the planned May, 2011 Cook Inlet lease sale.

2011 Year-Three, Drill second exploration well in either the East Kitchen or Kitchen Prospects:

1. If the unit does not terminate in year one, by December 31, 2011 the Unit Operator shall drill a second Exploration Well to either East Kitchen #1 or Kitchen #1 to a bottom hole location in either ADL #389926 or ADL# 389924, and as described in Table #1 and to a minimum depth of between 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations.

2. If the Unit Operator fails to drill an Exploration Well as described in item # 1 above and in Table #1, by December 31, 2011, the Kitchen Unit will automatically terminate and EOC shall pay the state $ xxx *(amount to be determined and under review)* for potential unrealized bonus payments

3015 Avenue, Suite 440 - Houston, Texas 77056 - Office: 713.490.2219 - Fax: 713.439.7225 - Email: escopeta@swbell.net

that might have been received on expired leases (11520 acres in ADL's 389189, 389190, 389191, 389192, 389193) in the KHU in the planned May, 2012 Cook Inlet lease sale.

TABLE 1: PROPOSED WELL LOCATION INFORMATION

East Kitchen #1	Kitchen #1	Kitchen #2
ADL 389926:	ADL 389924:	ADL 389917:
T 9 N., R 11 W., S.M.	T 9 N., R 11 W., S.M.	T 8 N., R 12 W., S.M.
Section 22	Section 18	Section 3

Additional Provisions

1) In accordance with Article 8.1.1 of the Agreement and 11 AAC 83.341, an annual report is due that describes the status of projects undertaken and the work completed during that year of the POE, as well as any proposed changes to the plan. The update to the POE must describe the applicant's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. All exploration operations must be conducted under an approved plan of exploration.

2) The Unit Operator shall submit a Second Plan of Exploration to the Commissioner at least 60 days before the POE expires. Alternatively, the Unit Operator shall request approval of the first Plan of Development, if appropriate, at least 90 days before the Initial POE expires. 11 AAC 83.341(b) and .343(c).

3) EOC shall incorporate the following terms into the next Plan of Exploration or Plan of Development: "EOC shall request approval from the Department of Natural Resources to establish an Initial Participating Area within the KHU by December 31, 2010. Any lease, or portion of a lease in the KHU not included in an approved participating area will subsequently contract out of the KHU upon approval."

Joint House Judiciary & Resources
Committee hearing
12-01-08

PACIFIC ENERGY

Lt. Governor Sean Parnell
State of Alaska
550 W. 7th Avenue. Suite 1700
Anchorage, AK 99501

May16, 2008

Commissioner Thomas Irwin
Department of Natural Resources
550 W. 7th Avenue, Suite 1400
Anchorage, AK 99501

RE: Corsair Unit Expansion Application
Appeal of Director Bank's Decision and Request for Reconsideration

Dear Lt. Governor Parnell and Commissioner Irwin:

In accordance with 11 AAC 02, Pacific Energy Alaska Operating LLC ("PEAO") and its parent, Pacific Energy Resources Ltd. ("PERL") (which companies are sometimes referred to collectively as "Pacific") hereby appeal the decisions of the Director of the Division of Oil and Gas (Division), dated April 30, 2008, regarding the Expansion Application for the Corsair Unit (Corsair) and Plan of Exploration (POE). PERL is the operator of Corsair and had requested the Expansion of the Corsair Unit, simultaneously offering an amended POE. The Director denied the request. A copy of Pacific's request to the Director and the Director's letter to Pacific denying its request are attached and incorporated into this appeal. At the time of the submission of the Corsair Unit Expansion Application, Pacific submitted extensive geological and geophysical (G&G) interpretations, structure maps, seismic data, well logs and evaluations to the Division in support of the Application. This G&G information is held confidentially by the Department of Natural Resources (DNR), pursuant to AS 38.05.035, and is hereby incorporated into this appeal by reference. Pacific hereby requests that all previous confidential data submitted to the Division concerning the Corsair structure remain confidential.

The subject leases of the existing Corsair Unit are ADL's 389196, 389197, 389198 and 389515, totaling approximately 10,185 acres. The requested northern expansion leases are ADL's 389513 and 389514, totaling approximately 5,082 acres. The requested southern expansion leases are ADL's 389507 and 389923, totaling approximately 11,464 acres.

The main points, among others, for this Appeal are as follows:

1. The Division did not fully consider the merits the Unit Expansion Application and the benefits to the State of Alaska and the public in its negotiations. Such actions by the Division severely prejudiced Pacific Operating Alaska, LLC and Pacific Energy Resources, Ltd.

2. The determination by the Division that the Proposed Amended POE was an "unacceptable delay" in the drilling of the unit's resources is erroneous. Rather, the Proposed Amended POE represents an acceleration in the drilling of the unit's resources.

3. The assumptions and conclusions made by the Division regarding the "warehousing" of leases are incorrect. The prejudicial and predetermined nature of the Division's Decision did not allow for the full consideration of the Expansion Application and appeared to have been written for the sole purpose of using the Decision to fortify its position taken in other pending litigation.

4. The determination by the Division that having the subject expansion leases available in the May 2009 lease sale would allow the leases to be drilled sooner and thereby conserve resources is incorrect. Rather, it would be impossible for the subject acreage to be drilled sooner on a lease-by-lease basis. The more prudent approach would be to permit the unitization of the total Corsair structure and resource, thus allowing all acreage to be made a part of a comprehensive exploration and development plan.

5. The Division's failure to unitize the entire reservoir works against the primary goal of conservation of all or part of an oil and gas resource. The fragmentation of the Corsair structure into unitized and non-unitized parcels with different working interest owners would ultimately result in a waste of both economical and physical resources.

6. The Division's conclusion that the State's and public's best interest would be served by having the expansion leases expire and become available for releasing by any potential high bidder, rather than preserving the Corsair structure and resource as a whole, operated by a single working interest owner is erroneous.

7. The Division failed to fully consider the protection of all parties of interest, including that of Pacific and the south central natural gas consumer, especially as it relates to the overall economics of bringing a jack-up drilling rig into the Cook Inlet for not only exploration of the Corsair structure, but the exploration of other offshore prospects and the step-out development drilling of the existing offshore platforms and their respective declining production and reserves.

8. The Division's Decision overlooks the technical, geological and geophysical information, as verified and supported by the Division's Resource Evaluation staff, as well as the economical and commercial aspects of the proposed Corsair exploration and development plans.

9. Denial of the Corsair Unit expansion is not in the best interest of the State and damages Pacific's capital investment in the Unit and the interpretation, evaluation and delineation of the Corsair resource.

10. The only possible parties who would benefit from the denial of the expansion application would be the existing major Cook Inlet producers. By the Division's denial of the expansion application, it is limiting competition and allowing the continued control of the market by the major Cook Inlet producers.

11. The Division's failure to adequately evaluate the expansion application in accordance with the provisions of 11 AAC 83.303 severely jeopardizes PERL's ability to economically explore and develop the Corsair prospect. The Division's failure to fully consider the merits of application prejudices and damages PERL.

These points, as well as others, are discussed in further detail, and are elaborated on as they relate to their occurrence in the aforementioned Director's Decision.

I. DECISION SUMMARY, paragraph two, finding No. 1: Does not promote the conservation of natural resources. (page 3)

The Corsair structure, as delineated and presented to the Division's Resource Evaluation staff, indicated several intervals of productive hydrocarbon sands within the Sterling, Beluga, Tyonek and Hemlock formations. Unitization of the entire reservoir, especially by a single operator, will insure the most efficient exploration and production of the resources, and the greatest ultimate recovery from the Corsair reservoirs.

Without unitization of the entire Corsair structure, the resource could be fragmented into unitized and non-unitized parcels by multiple working interest owners, requiring needless negotiations, duplication of effort, and waste. Should the subject leases be acquired by another lessee, there is no assurance that that operator will have the necessary financial capabilities or access to the required offshore drilling equipment to explore and produce those portions of the reservoir, thereby wasting the natural resources.

As the Division is aware, unitization of leases ideally encompasses the minimum area necessary to encompass the entire geologic structure or reservoirs. By denying the proposed unitization of the subject leases, the DNR effectively promotes the waste of natural resources. Therefore, Pacific maintains that the Division erred in its finding that unitization of an entire geologic structure does not promote the conservation of natural resources.

I. DECISION SUMMARY, paragraph two, finding No. 2: Does not promote the prevention of economic and physical waste any more than non-unitized development of the individual leases. (page 3)

The proposed unitization of the expansion acreage into the Corsair Unit would guarantee the efficient exploration and evaluation of the entire Corsair structure. A single operator would then be able to drill and evaluate each well and determine the optimum location of each subsequent well.

Moreover, a single operator of the entire Corsair structure can develop the resource systematically, using the same offshore drilling structure and technologies without the duplication of facilities and processes.

Should the expansion leases be acquired by another lessee on a lease-by-lease basis rather than as part of a unit, that lessee would be required to have its own offshore drilling equipment, drilling schedule, plans of exploration and development plans separate and apart from those of the Corsair Unit operator. This would result in the duplication of resources - staff, and production and transportation facilities. There is no assurance that such lessee's plans would either compliment or conflict with those plans of the Corsair Unit Operator.

The Division evaluated of the benefits and the shortcomings associated by non-unitization, as stated on page 5, paragraph three, of the Decision, and recognized that:

> *"[u]nitization may lessen environmental risks by reducing redundant facilities. Lessees operate under a unit agreement that includes a plan of exploration or development covering the entire unit area rather than individual leases."*

Non-unitized development would result in duplicative facilities and the unorganized development of the Corsair reservoirs. Without the unitization of the entire Corsair structure, by a single operator, the amount of economic and physical waste would be immense. Pacific maintains that the Division erred in its finding that unitization of an entire geologic structure does not promote the prevention of economic and physical waste, any more than non-unitized development (associated with unitized development) on the individual leases.

I. DECISION SUMMARY, paragraph two, finding No. 3: Does not provide for the protection of all parties of interest, including the state. (page 3)

At present, there are only two parties having a direct interest in the existing and the proposed expanded Corsair Unit: the State of Alaska and Pacific Energy Alaska Operating LLC, as lessee (Pacific Energy Resources Ltd., as unit operator). Other associated parties of interest include the public, the south central Alaska natural gas and gas-generated electrical consumers, adjacent lessees, and existing offshore oil and gas producers.

Pacific maintains that the Division did not adequately consider the protection of Pacific's interest. Pacific has expended approximately $500,000,000 to acquire the assets of Forest Oil Corporation (Forest), preserving the Corsair leases, evaluating and mapping the Corsair reservoirs, and the acquisition of a suitable offshore drilling structure. Without the expansion acreage, Pacific loses the economic advantage, as well as the benefit of the bargain, that they purchased from Forest and acquired through its own diligence. Moreover, Pacific loses approximately two-thirds (2/3rds) of the Corsair structure and any potential revenue derived from the production of those resources.

Denying the expansion of the Corsair Unit to encompass the entire geologic structure and all potential reservoirs severely prejudices and damages the economic investment and proprietary position that Pacific has endeavored to gain. The denial of the Corsair Unit expansion and the DNR's proposed offering of the Corsair leases that contain approximately two-thirds (2/3rds) of the Corsair structure amounts to nothing less than a taking by the DNR, and the ultimate waste of hundreds of millions of dollars of investment by Pacific.

The State of Alaska places the interests of its citizens and other directly interested parties at risk as well. In denying the Corsair expansion application, the DNR jeopardizes the economic feasibility of the Corsair prospect as well as Pacific's ability to justify the delivery of the jack-up drilling rig to the Cook Inlet. If Pacific is only left with control of approximately one-third (1/3rd) of the Corsair structure, it may not be economically feasible or prudent to invest the additional tens of millions of dollars required to secure and deliver the jack-up drilling rig to the Cook Inlet. Moreover, the State of Alaska and the south central consumers are damaged if the Corsair structure is not explored by Pacific. The State loses royalty and tax income, citizens lose potential jobs, and consumers may face higher natural gas prices. Unlike potential lessees who would not acquire leases until a lease sale could be completed, Pacific is immediately positioned and best suited to explore and develop the Corsair structure.

Any disruption of PERL's ability to deliver the contracted jack-up drilling rig to the Cook Inlet jeopardizes not only the exploration and production of the Corsair Unit structure. Such disruption threatens the exploration and production of the Kitchen Unit, the East Kitchen Unit, step-out development drilling for the existing Cook Inlet Platforms and associated reservoirs, and any new potential offshore exploration prospects.

The Decision recognizes that the Cook Inlet has not had a mobile offshore drilling structure in its waters for almost two decades. As a result, existing production from offshore platforms has declined dramatically, and offshore exploration has become stagnant. Portions of existing reservoirs currently served by existing offshore platforms are either unreachable by directional drilling or there is not sufficient space in the platform's legs to accommodate additional wells. A jack-up drilling rig could access these unreachable portions of the existing reservoirs and tie their production back to the existing platforms, thereby extending economic life of those platforms and providing the opportunity for greater recovery of the associated resources.

Without the inclusion of the Corsair expansion acreage and subsequent delivery of a jack-up drilling rig, as proposed by Pacific, the existing production from offshore platforms in the Cook Inlet will continue its decline to a point where it is uneconomical to continue operating the platforms, and those platforms will immediately become an economic and environmental liability to the State of Alaska. Additionally, without the inclusion of the Corsair expansion acreage and subsequent delivery of a jack-up drilling rig, there will be no offshore exploration or additional offshore production for what may be decades to come, resulting in continued decreased oil and gas reserves, gas shortages and higher consumer prices.

It is unlikely that another company, including the major operators in the Cook Inlet, will bring a jack-up drilling rig into the Cook Inlet in the near future. This is evidenced by both the recent history and lack of such an attempt by the majors in the past. The Division itself acknowledges this fact as follows:

> *Due to the significant capital investment required to bring a jack-up rig to the Cook Inlet, and the long lead time for scheduling a suitable heavy lift vessel for transport of the rig, it is unlikely that multiple jack-up rigs would be delivered to the Cook Inlet. Indeed there has not been a jack-up drilling rig in the Cook Inlet since the early 1990's. (Decision, page 5, paragraph 4.)*

By the denial of the Corsair expansion application, the State of Alaska risks the loss of potentially billions of dollars in royalties and taxes, increased employment opportunities, trickle-down income to hundreds of other Alaskan business, and other types of income and income-generating opportunities. The State would also incur the continued decline in production and eventual shut-down of the existing offshore production platforms and increased economic and environmental liabilities. This decision is surely not in the best interests of the State of Alaska, the existing offshore producers, the Cook Inlet natural gas industrial users and consumers, and the people of Alaska in general.

In summary, the denial of the Corsair Unit Expansion Application results in 1) the waste of natural resources in general, not confined to only the Corsair prospect; and 2) the specific economical and physical waste of the Corsair resources as well as others. Moreover, it jeopardizes the interests of PERL, the other offshore producers, the State of Alaska, the Cook Inlet gas industrial users, the south central and rail belt natural gas and natural gas-generated electrical consumers, and the people of Alaska in general.

IV. DISCUSSION OF DESIGN CRITERIA, A., 1. Environmental Costs and Benefits of the Expansion, paragraph four, which reads: (page 5)

> *In order to drill any exploratory wells in the existing unit or the proposed expansion area PERL must use a rig capable of drilling offshore without a platform, i.e. a so-called jack-up rig. Under the Initial POE, PERL has committed to drill a well by June 30, 2009 within the existing Corsair Unit regardless of unit expansion. Unit expansion will not decrease the need for such a drill rig.*

The Initial POE was negotiated by PERL's predecessor Forest Oil Corporation (Forest). Upon acquisition of Forest's assets and associated contractual obligations, it became clear to PERL that Forest did not adequately interpret the Corsair structure, did not make any efforts in obtaining a jack-up drilling rig, and therefore could not have met the pre-existing obligation of drilling a well by December 31, 2008. PERL's first priority was to evaluate the reality of having a drilling rig delivered to the Cook Inlet and the earliest date that a well could subsequently be drilled. This was the basis for requesting that the Division revise the drill-by date to June 30, 2009.

The second priority was to fully examine, delineate and evaluate the Corsair Structure and the economics of bringing a jack-up drilling rig to the Cook Inlet. It became apparent to PERL that the reason Forest did not make any attempts to acquire or deliver a drilling rig to the Cook Inlet was because the existing reservoir, as they knew it, was not adequate to support the economics of rig acquisition and delivery.

With the acquisition of additional seismic data and further interpretation and evaluation, PERL determined that the Corsair structure, having multiple reservoirs, extended considerably further than the existing unit boundaries. After this evaluation by PERL (which was not completed until after the renegotiation of the aforementioned drill-by date), PERL determined that the economics for obtaining a jack-up drilling rig were sufficient if the entire Corsair structure was included in the exploration and development.

Although unit expansion will not decrease the need for a jack-up drilling rig to meet the contractual obligations of the June 30, 2009 POE drill-by date, PERL maintains that without the inclusion of the expansion acreage it is uneconomical to acquire and deliver the drilling rig. PERL agrees with the Division's determination that unit expansion will not decrease the need for such a drilling rig [for the entire Cook Inlet, in general]. However, the Division's denial of the Corsair Unit Expansion jeopardizes PERL's ability to acquire and deliver such a drilling rig. That Decision not only purposefully forces the ultimate default of the Corsair Unit, but delays any near-future offshore exploration or development throughout the Cook Inlet. The Division offers no viable economic alternative to get the Corsair acreage drilled by an party other than PERL.

Therefore, PERL maintains that the Division's determination that the approval of the Corsair Unit Expansion Application has no additional benefits is contradictory and flawed.

IV. DISCUSSION OF DESIGN CRITERIA, A., 2. The Geologic and Engineering Characteristics of the Reservoir and Prior Exploration Activities of the Corsair Unit Area; Corsair Expansion Prospect, which reads, in part: (page 7)

"The Corsair prospect is the large NNE-SSW trending doubling plunging, SRS anticline with four-way dip closure. ... The structure is approximately 2.5 miles wide and 9 miles long. ... The seismic data over the Corsair Prospect demonstrates four way closure through the entire Tertiary section.

The Corsair Unit as currently configured contains two types of hydrocarbon prospects. The primary target consists of Sterling and Beluga sands; a secondary target is the deeper Tyonek Oil Sands. In the acreage under consideration for expansion (both northern and southern leases) only a single hydrocarbon target is viable, the Tyonek oil sands. Maps provided by PERL show the expansion acreage underlain by oil-bearing sandstones of the Tyonek Formation. ..."

According to the Division's Resource Evaluation staff, PERL is correct in its assertion that the Corsair structure extends beyond the existing boundaries of the Corsair Unit. Indeed, it is agreed that the structure is 2.5 miles wide and 9 miles long, extending into both the northern and southern expansion acreages. In PERL's interpretation and evaluation of the structure and the multiple reservoirs, it was determined that it was the deeper Tyonek oil-bearing sandstones that made the prospect economically viable to drill. PERL also believes that there are potential gas traps in the expansion acreage as well, not indicated by the Resource Evaluation staff. Confirmation of either the existence or the absence of additional gas resources in the expansion acreage cannot be determined until after actual wells are drilled in that acreage.

Additional evaluations have recently been completed on the Corsair Prospect which further quantifies the value of the expansion acreage, relative to the entire Corsair prospects economic viability. The Corsair Structure Resource Evaluation prepared by Gaffney, Cline & Associates, Inc., renowned internationally recognized technical and management advisors to the petroleum industry, was completed on May 7, 2008 for PERL. This Evaluation is attached for your review and is requested to be held confidentially, pursuant to AS 38.05.035.

Review of the aforementioned Evaluation agrees with the determination of the Division's Resources Evaluation staff: it is the larger Tyonek reservoir that determines the Corsair prospects' economically viability. Without the expansion acreage, containing approximately two-thirds (2/3rds) of the Tyonek reservoir, PERL believes the Corsair prospect will not be economically viable and will likely not be able to justify the acquisition and delivery of the jack-up drilling rig to the Cook Inlet. Without the jack-up drilling rig, the Corsair Prospect, as well as many others, will not be explored or produced. Neither PERL nor the State will benefit if this happens.

It is curious that notwithstanding its Decision to the contrary, the Division has supported PERL's conclusion that the geologic and engineering characteristics of the Corsair structure extend into the Corsair Expansion leases, and without those expansion leases a significant portion of the Corsair prospect will be lost.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph one, which reads, in part: (page 7)

The Corsair Unit Initial POE required, among other things, that PERL submit a satisfactory drilling rig contract by December 31, 2007(attachment 5). PERL did not fulfill this commitment. On December 31, 2007, the Division notified PERL that the unit was in default and granted PERL a 90-day period, until April 1, 2008, to cure the default or the Unit would terminate. Effective April 1, 2008, the Division approved PERL's default cure, subject to the conditions set out in the Division's April 1, 2008, default cure decision. (Attachment 4). On January 29, 2008, the Division also granted PERL a six-month extension, until June 30, 2009...

PERL did not acquire the Corsair leases until August 2007. The DNR did not approve PERL as the Successor Unit Operator to Forest until November 27, 2007. This gave PERL only 34 days to meet the obligations of December 31, 2007, as stated above. To characterize this as situation of not fulfilling the obligation that PERL inherited from Forest is unfair and displays an unfavorable attitude and biased opinion towards PERL by the Division, which is prejudicial and unjustified.

Prior to the Division's issuance of the Notice of Default, mentioned above, PERL had several lengthy conversations and meetings with the Division, explaining the hardship of meeting those commitments in just 34 days after being recognized as Operator of the Corsair Unit. PERL offered a variety of options and alternatives to prevent the default of the Unit. The Division denied all proactive attempts by PERL to keep the unit out of default, and instead issued the Notice of Default with proposed cures that were essentially the same as those offered by PERL in advance of the Default.

As soon as was practical, PERL fulfilled all the requirements of the POE, the requirements to cure the Notice of Default, and all requirements due to date in the amendments or extensions to the POE. PERL has acted with only the highest regard of the Division, has always negotiated in good faith, and has fulfilled all its obligations to date. All requested amendments, extensions and expansions requested have been justified as a matter of necessity in relation to the timing of the acquisition of Forest, its data and interpretations, and the Corsair Unit POE work commitments.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph two, which reads, in part: (page 7 to 8)

"PERL has proposed a Revised Initial POE (Attachment 3) as part of the Application, which provides for work commitments similar to those in effect under the Initial POE, as amended by the Division's decisions, but proposes extensions to the work commitment dates.

In the Revised Initial POE, PERL proposes drilling three wells by December 31, 2009, extending the current June 30, 2009, requirement for the first well by six months. PERL neither requests an extension nor provides discussion of the justification to extend that requirement to December 31, 2009."

PERL did not specifically request an extension of the June 30, 2009 drilling commitment of the first well. Instead, PERL offered the drilling of an additional two wells within the same year. The proposed extension of the drilling date to December 31, 2009 is necessary to accommodate the time required to demobilize from the first well, move the rig to the second well location, rig-up and drill the second well, demobilize from the second well, move the rig to the third well location, and rig-up and drill the third well.

PERL was remiss in not adequately explaining the time required to drill the two additional wells and the additional time mandated by the addition of that work commitment. PERL anticipated that the Division staff would be knowledgeable of the drilling process and associated time involved. The six month extension to the 2nd year work commitment (within the same calendar year) is merely needed to allow for the drilling of two additional wells. Because of the time needed to drill and mobilize the jack-up drilling rig, it would be mandatory to have the first well drilled by June 30, 2009, in order to have the next two wells drilled and tested by December 31st of that same year.

A primary consideration in the extension of the drilling commitment date to December 31st is to allow PERL to utilize the entire drilling season. The Cook Inlet experiences ice-free periods from about April through November. Offshore exploration, due to the structural integrity of the jack-up rig's legs, must be limited to periods of ice-free water to avoid the possibility of damage. Utilizing the entire open water 2009 ice-free exploration window by PERL allows the opportunity for the jack-up drilling rig to become available for contracting out to other operators during the entire 2010 ice-free exploration window.

PERL believes the justification for the December 31, 2009 drilling commitment date was self evident. Moreover, the Division receives the benefit of data obtained from drilling two additional wells within the same year. Adding two additional wells accelerates the drilling and prospect delineation schedule. Each well will cost approximately $20,000,000 to mobilize, drill, test, suspend and demobilize. The additional two wells bring approximately forty-million dollars more of activity and income to the State in the form of jobs and personal wages, supplies, taxes, income to support industry operations, and trickle-down revenue to hundreds of business.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph two and three, which reads: (page 8)

PERL proposes submitting an application for an initial participating area (PA) by December 31, 2010 – eleven months later than the submittal date, January 31, 2010, set out in the Initial POE.

The Initial POE proposed the drilling of a second exploration well during the fourth year of the POE, by January 31, 2011. The Revised POE, which proposes to drill three wells by December 31, 2009, proposes a drilling commitment date of December 31, 2011 for a fourth well. In both POE's, PERL commits to submit the necessary applications to obtain approvals to allow construction of pipelines and infrastructure to permit commercial production from the PA. Initial POE requires the submittals by January 31, 2010, the Revised Initial POE delays the submittal date to December 31, 2010.

As the Division has reiterated above, PERL proposed to drill the second well in the same year as the first well (year two) – instead of waiting until the fourth year to drill the second well. PERL had also proposed to drill a third well in that same year as well (year two). PERL had proposed the drilling of the fourth well in the fourth year, rather than just a second well in the fourth year.

PERL had extended that drill date eleven months to accommodate the additional time needed to evaluate the results of three wells instead of only one well (the addition of well #2 and well #3) drilled in the second year, and to plan for the most optimum location of the fourth well. The additional 11 months of time would also allow for any seismic verifications and re-evaluation in conjunction with the new well data that may be necessary after the drilling of those first three wells. For this same reason, stated above, the submission of the application for the initial PA and the construction of pipelines and infrastructure would also be needed to be extended eleven months, for evaluation and planning purposes.

In its proposed Revised Initial POE, PERL had committed to three wells in the second year - instead of only one, and a fourth well in the fourth year – instead of only a second well in the fourth year. This can in no way be construed as a delay in the development of the Corsair. The additional information to be gained by these two additional wells (which would be made available to the State), the increased activity in the Cook Inlet, the income to individuals and other business derived from this activity, and the overall benefits to the State and the people of Alaska must certainly justify and offset a delay in submitting PA and construction applications by only eleven months.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, last paragraph, which reads, in part: (page 8)

> *PERL proposes that the promise to drill multiple wells on the expansion leases justifies the expansion of the existing unit area and the extension of these leases beyond the primary term. The Operator has yet to drill the original Corsair Unit leases within the leases' primary terms. Approval of this proposed expansion, extending the primary term of the proposed expansion leases, amounts to warehousing of the proposed expansion lease acreage. ... The prospect described by PERL in the Application underlies the existing Corsair Unit as well as the proposed expansion leases. Delineation and production of the existing current leases is dependent upon fulfillment of the Initial POE obligations, securing contracts for the use and mobilization of a suitable rig, not upon unitization.* (emphasis added)

The Operator, as stated by the Division staff above, has not drilled the original Corsair Unit leases within the leases' primary terms because the primary terms of those leases will not allow adequate time for PERL to contract and deliver a jack-up drilling rig to the Cook Inlet, let alone the actual time necessary for the drilling of the well.

That commitment was made before PERL acquired those leases from Forest. It was simply impossible for PERL to have acquired and delivered a jack-up drilling rig to the Cook Inlet before it had ownership of the leases. The Division had approved the extension of the original drilling commitment, made by Forest, for reasonable and just cause. For the Division to now use this as criteria to discredit the Operator is unfair and discriminatory.

The Division met with PERL several times throughout this process, and seemingly understood the dilemma the PERL was in upon its acquisition of Forest Alaska Operating LLC and the associated work commitments. The Division was receptive to PERL's suggested amendments and extensions to the work commitments in order to have a jack-up drilling rig delivered to the Cook Inlet which would renew the stagnant offshore exploration there. The Division approved, through whichever means deemed appropriate by the Division, all amendments and extensions necessary to allow PERL to timely explore and develop the Corsair prospect.

It is neither fair nor appropriate for the Division to use its own approvals of the modifications and extensions of the Corsair Unit work commitments as justification for denying the Expansion Application. Nor is it fair or appropriate for the Division to use its approvals in a derogatory manner against PERL's reputation and ability to perform as an Operator.
As stated in IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, fourth paragraph, which reads, in part: (page 8)

> *The Initial POE approved with the Corsair Unit Formation Decision committed the Operator to drill a well within twenty three months after unit formation, by December 31, 2008. The state exchanged the value of re-leasing the soon to expire acreage for a promise that the original Corsair Unit Leases would be drilled within two years. Given the prolonged contracting and scheduling efforts required to bring a jack-up to the Cook Inlet, utilizing the leases under an approved Initial POE would result in production of a commercial resource, if found, sooner than allowing the leases to expire.*

The criteria and rational used by the Division to make the above determination for the formation of the Corsair Unit on January 31, 2007, makes the best case today for the inclusion of the expansion leases. With the inclusion of the expansion leases, the State obtains a promise to drill those leases within only 20 months of its proposed approval date of April 30, 2008. The original Corsair Unit required the leases to be drilled within 23 months of the unit approval, the expansion application provides an acceleration of that requirement by three months for the same number of wells.

The Division also recognized that the inclusion of leases under an approved POE would result in the commercial production of the resource sooner than if the leases were to expire and be re-leased. Further, even if the subject leases were re-leased in any upcoming leases sale, there is no greater guarantee that the leases would be drilled by another prospective lessee on a lease-by-lease basis, than the one that PERL is presently offering on a unitized basis.

The use of the term "warehousing" of leases is apparently being used as justification to support other actions that the DNR currently has pending before the Superior Court in the ExxonMobil appeal of the termination of the Point Thomson Unit and leases. PERL maintains that the actions of Exxon vis-à-vis the Point Thomson Unit and the situation faced by PERL regarding the Corsair Unit are readily distinguishable.

Exxon and the other working interest owners monopolized the Point Thomson leases for decades without fulfilling a single work commitment. The working interest owners had local access to the necessary drilling equipment throughout the entire term of the Point Thomson Unit. Exxon has received Division approvals for more than twenty amendments to its POE / POD.

PERL has had control of the Corsair leases for only five (5) months. There is no locally available drilling rig equipped to drill offshore in Alaska. Moreover, PERL has received only one extension to its POE and is requesting the expansion leases to be included in the Corsair Unit to allow PERL to exercise a reasonable and justified opportunity to explore and develop the entire Corsair structure.

The term "warehousing of leases" is used to describe a process whereby a lessee holds acreage for an indefinite amount of time for some unknown future exploration or development activity. PERL intends to drill these expansion leases next year. This commitment is not warehousing. The expansion leases are necessary to make the exploration of the entire structure economically feasible.

Unlike the persistent inactions of the Exxon working interest owners, PERL's actions and requests have been credible and in good faith. PERL has not endeavored to delay the efficient reservoir production. Since it acquired ownership of the former Forest leases and since its approval as Successor Operator of the Corsair Unit, PERL has made a diligent and sincere progress in its efforts to insure to the State practical and efficient reservoir production.

Further, unlike Commissioner Menge's finding in the Exxon case, there has not been an unreasonable amount of time squandered in PERL's actions to go forward with drilling activates in the Corsair Unit.

Inclusion of the expansion leases into the Corsair Unit is not a warehousing of leases. It is the prudent and reasonable addition of all leases that have the underlying contiguous Corsair structure to the existing Corsair Unit. For the Division to label this proposed action as warehousing is unjustified and prejudicial.

The only purpose that can possibly be served by the Division for making such a determination, is the Division's ability to benefit from it as an example of alleged consistent behavior in other administrative proceedings.

As the Division has stated above, the Corsair prospect also underlies the expansion acreage. As with the existing leases, delineation and production of the expansion leases is dependent on the fulfillment of the proposed POE and securing the same contract for the use and mobilization of a suitable rig. PERL maintains that the delineation and production of the expansion leases is, therefore, dependent upon unit formation. Additionally, the economic viability of the existing current leases within the approved Corsair Unit is also dependent on the unitization of the expansion leases. Without the inclusion of the expansion leases in the Unit, the prospect will not be economical.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, second paragraph, which reads, in part: (page 9)

If the expansion is not approved, the leases will expire and the acreage will be available in the May 2009 Cook Inlet Areawide Lease Sale. Provided PERL fulfills the commitment in the Initial POE, a jack-up rig will be working in the Cook Inlet by June 30, 2008. At that time PERL or any other successful bidder will have the opportunity to contract for the rig and conduct exploration and delineation drilling on any offshore lease. If the rig does not arrive, then no drilling by any party will occur on any offshore leases, regardless of unitization.

The assumption and determination by the Division that should the leases expire they will be available in the May 2009 lease sale is erroneous for two reasons:

Firstly, the upcoming May 2009 Cook Inlet Areawide Lease Sale requires a new ten-year Best Interest Finding (BIF). This process is cumbersome and often fraught with delays. In fact, the ten-year Preliminary BIF for the North Slope Areawide Lease Sale was due March 2008, and it is still pending. Once the Preliminary BIF is issued, it requires a 90-day public noticing period and an additional 30 days for information requests and responses. The Final BIF must be approved and issued 90 days prior to any lease sale date.

This entire process takes a minimum of seven-months to complete after the Preliminary BIF is drafted and published. The Preliminary Cook Inlet BIF is scheduled for July 1, 2008 in order to make the May 2009 Lease sale date. It is very likely the Final BIF will not be issued in time for the May 2009 lease sale. Once the Preliminary BIF is issued, litigation by special interest groups and obstructionist organizations often follows in attempts to stall the process. This is not an unusual occurrence in the BIF process. For these reasons, the May 2009 lease sale will likely be postponed.

Secondly, it has historically taken as long as a year to issue the leases after a lease sale. This lag time is due to the Division's work load and decision to do the necessary title work on the leases only after an acceptable bid has been received. As a result, even if the expansion acreage were to expire and be available in the May 2009 lease sale, further assuming it was held on schedule, the leases would likely not be issued until April of 2010.

Given the amount of time it would take to then evaluate and select a drilling location, formulate a drilling plan, and obtain permits, drilling in these leases would not occur until sometime in 2012. This would be a year after PERL's current proposal to have a fourth well drilled.

PERL reminds the Division that even if the May 2009 lease sale were held on schedule and the Unit expansion were approved, if PERL did not supply the Division with a signed contract for the heavy lift vessel to transport the jack-up rig to the Cook Inlet by July 31, 2008, as required in the Corsair Unit Default Cure approved by the Division, the Unit would be in default and the leases would terminate and be available in time for the proposed May 2009 lease sale.

Therefore, the State would be in no better position in denying the expansion and having the leases expire than it would be in if it approves the leases and the unit POE is ruled in default on August 1, 2008 and the leases terminate. The ONLY difference to the State is that with the denial of the Unit expansion, the acreage becomes in an un-leased condition for twelve (12) months, instead of only nine (9) months with the expansion approval and default. In either scenario, the State would collect a penalty from PERL in the amount equal to $35.00 per acre.

On the other hand, if the Expansion Application were to be approved and the July 31, 2008 commitment is met, the delivery of a jack-up drilling rig to the Cook Inlet would almost be a certainty, barring any unforeseen force-majeure situations. In this scenario, the State, PERL, the other offshore oil and gas producers and the south central Alaskan gas consumers would be the beneficiaries.

PERL maintains that the State has not convincingly demonstrated any damages or reasonable harm in an Approval of the Expansion Application and giving PERL their earned right to explore and develop those leases.

Without the expansion acreage, it is unlikely that PERL will be able to economically justify the delivery of a jack-up rig to the Cook Inlet. Although, for the sake of argument, assuming the Expansion Application denial is upheld, and the leases expire, and PERL does bring a jack-up rig to the Cook Inlet, the Division's assumption that *"any other successful bidder will have the opportunity to contract for the rig and conduct exploration and delineation drilling of any offshore lease"* is in error and has no basis in fact. Should PERL bring a jack-up rig to the Cook Inlet, there is absolutely no guarantee that this rig will be available to any other operator other than PERL. In addition, there are no U.S. registered heavy-lift vessels capable of transporting a jack-up rig, so a foreign vessel must be utilized, requiring a Jones Act Waiver from the Dept. of Homeland Security. With the current war, upcoming change of Administration and lead time necessary, it is very unlikely another company could obtain such a waiver for several years to come, thereby not being able to deliver their own drilling rig.

The Division is correct in its statement that "If the rig does not arrive, then no drilling by any party will occur on any leases, regardless of unitization." This is exactly what the Division risks for the entire State by not approving the Expansion Application.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, third paragraph, which reads, in part: (page 9)

PERL acquired interest in the Corsair Unit with full understanding of the commitments and agreed to the terms and conditions of the Unit Agreement, which includes the initial POE, upon their acceptance of designation by Forest as the Successor Unit Operator, on November 27, 2007.

PERL acknowledges that this statement is true with the following caveat: PERL also recognized that the commitments contained in the Initial POE were in-fact impossible to meet and intended to request appropriate amendments to make such work commitments practical and feasible that once it acquired the Forest assets.

Upon the approval by the Division of PERL as Successor Operator of the Corsair Unit, the Division was also fully aware that the work commitments contained in the Initial POE were impossible to meet. The Division knew or had a reasonable certainty of knowing that PERL would apply for such amendments to allow for the successful execution of the work commitments. The Division approved those reasonable and appropriate amendments through the use of Default Cures and Extensions with full understanding that it was in the State's best interest to allow PERL a fair and just opportunity to fulfill those commitments.

The Division has been a willing participant as the land owner and regulatory authority governing leases, lessees, and unit operations, during the entire process from the acquisition of the Forest assets to this application for this Unit Expansion. For the Division to now use PERL's acceptance as Successor Unit Operator and the Division's own approval of such designation as reason for denial of the Unit Expansion Application is neither fair nor consistent treatment of PERL by the Division.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, fourth paragraph, which reads: (page 9)

The Division has already granted a six month extension for the first well drilling commitment, which is now due on June 30, 2009. PERL must drill that well in Tract 1 or 3, which are in the original unit area. PERL now proposes to postpone that commitment by an additional six months, until December 31, 2009, and commits to drill two additional wells in the proposed expansion area, Tracts 6 and 7, within the same timeframe. The Division's April 1, 2008, decision imposed additional obligations on PERL, including obligations pertaining to the rig contract, which must be met by April 30, 2008, or the unit terminates and obligations pertaining to a heavy lift vessel, which must be met by July 31, 2008, or the unit terminates.

As previously stated, the Division's approval of the six-month extension for the first well drilling commitment of June 30, 2009 was appropriate and justified. The Division consciously approved that extension with the full knowledge that it was essential for any chance of getting a jack-up drilling rig delivered to the Cook Inlet and having the well drilled. The only stipulation made by the Division in the extension approval was that PERL cure the April 1, 2008 default, which PERL did cure on March 14, 2008 with the Division's acceptance.

The commitment in the Initial POE, as extended, requires PERL to drill a well in either Tracts 1 or 3 by June 30, 2008. The Division is in error in the instant Decision concerning PERL's request of an additional six months extension to the commitment to drill the first well. The Division has misconstrued PERL's proposed commitment to drill an additional two wells by December 31, 2009 – within the same timeframe as the first well, as it pertains to the overall year-two work commitment – as an additional six-month extension to the original first well.

The date of the Director's Decision denying the Expansion Application is April 30, 2008. However, the Division uses the language "*including obligations pertaining to the rig contract, which must be met by April 30, 2008, or the unit terminates*". In fact, PERL had fulfilled that obligation on April 24, 2008, with the payment of the required non-refundable deposit of $100,000 to Blake Offshore, LLC, which was followed up with an e-mail confirmation to the Division on April 25, 2008. The use of this language clearly after the fact of the fulfilled obligation indicates that the Decision was written several days in advance of its execution and relied on the assumption that such obligation would not be met.

There are two basic flaws apparent in this section of the Decision. First, since it is obvious that the Decision was written several days in advance of its issuance, the Division had adequate time to notify the applicant of its pending Decision and its rationale for denial. Such notice would have allowed PERL the opportunity to agree to any revision that might have made either the Expansion Application or the Revised Initial POE acceptable to the Division. Second, the Division's assumption that a work commitment would not be met and having written the Decision days in advance is arbitrary and not fair to PERL.

It is clear that the Division had no intention of approving the application soon after its submittal. This position taken by the Division prejudiced PERL by not allowing for either the fair and just evaluation of the Expansion Application, the non-biased, full consideration of the proposed work commitments, or the opportunity for PERL to discuss any alleged deficiencies with the Division prior to the Denial Decision. Further, by not informing the Applicant until the day of the leases' expiration, the Division effectively made it impossible for PERL to petition the Alaska Oil and Gas Conservation Commission (AOGCC) for compulsory unitization. PERL's right was only viable as long as the leases were in force. The Division could have in good faith notified PERL in advance of the April 30, 2008 issuance date that it intended to deny the Expansion Application, allowing PERL its right to timely petition the AOGCC for a satisfactory decision. The Division's deliberate delay in notifying PERL took away important rights, including the right to due process, and prejudiced and damaged PERL.

IV. DISCUSSION OF DESIGN CRITERIA, A., 4. The Economic Costs and Benefits to the State and Other Relevant Factors, which reads: (page 9)

> *Approval of the unit expansion as proposed postpones current commitments and delays development. Denial of the unit expansion application will result in the expiration of the leases. The leases will be available at the May 2009 Cook Inlet Sale. The competitive lease sale program provides opportunity to all potential lessees to acquire interest in acreage and to explore that acreage within the primary term of the lease.*

As demonstrated above, the Division has made an erroneous determination that the approval of the expansion application will postpone commitments and delay development. To the contrary, PERL's Revised Initial POE accelerates the drilling of the Corsair resources by adding two additional wells within the same year work commitment which in-fact expedites the development. The denial of the Expansion Application actually postpones the drilling of additional wells in the expansion acreage and delays the development, if not cancelling it all together, within the Corsair prospect.

To reiterate, the expired leases may or may not be available in May 2009 for a lease sale. By allowing the expiration of the Corsair expansion leases, and having them available to any potential lessee (other than PERL), the Division essentially gives that potential lessee an unearned interest in the Corsair reservoir, for nothing more than the highest bonus bid. This would be an unfair advantage propagated by the Division in favor of the new lessee and at the expense of and to the detriment of PERL. Should another lessee acquire these expired leases in any subsequent lease sale, there is absolutely no guarantee that that lessee will be able to either deliver its own jack-up rig to the Cook Inlet or contract for PERL's jack-up rig, if any, within the primary term of their leases. This is an erroneous assumption on the part of the Division.

By requiring PERL to competitively bid on acreage in which it has already demonstrated a hydrocarbon prospect, the State would receive an unjustified windfall in bonus bid revenue in order to insure PERL obtains such leases back. This forced re-leasing requirement is an unfair enrichment of the Division. The Division is charged with acting in the best interests of the State, the public and the Alaskan businesses, including PERL. The denial of the Corsair Unit Expansion and the resultant expiration of the leases is a taking by the Division and severely prejudices and damages PERL.

Further, the ability of the Division to "take back" the leases proposed for the unit expansion because it has the ability to re-lease the leases in a subsequent lease sale and provide an opportunity for other potential lessees to acquire those leases is not a justifiable reason for denying the unit expansion and facilitating the expiration of leases that contribute to an identified hydrocarbon deposit. In doing so, the Division is displaying blatant prejudicial treatment against PERL, and is ignoring standard leasing and unitization processes which have been established and employed industry-wide throughout the State's oil and gas leasing history.

IV. DISCUSSION OF DESIGN CRITERIA, B., 1. Promote the Conservation of All Natural Resources. (page 10)

PERL has demonstrated repeatedly that the unitization of the expansion leases will promote the conservation of not only the Corsair resources, but virtually all of the Cook Inlet offshore resources. Without the inclusion of the expansion leases, which contain approximately two-thirds (2/3rds) of the Corsair structure, it is not economically feasible for PERL to bring a jack-up rig to the Cook Inlet. Without a jack-up drilling rig, none of the Corsair leases, as well as other leases, units and existing productive reservoirs, will be explored, produced, or enabled to have step-out development drilling. The Denial Decision actually causes a waste of natural resources and forces production from the existing offshore platforms to continue to decline and stagnate.

Further, the Division has not proven that the unitized operation of the Corsair expansion leases would in any way detract form the conservation of all natural resources. Accordingly, without substantial proof to the contrary, the Division must allow PERL the benefit of the doubt in its assertion that unitization of the Expansion acreage will promote the conservation of natural resources. Therefore, the Corsair Unit Expansion, in and of itself, promotes the conservation of ALL hydrocarbon resources in the offshore area of the Cook Inlet.

V. DISCUSSION OF DESIGN CRITERIA, B., 2. The Prevention of Economic and Physical Waste. (page 10)

PERL has expended several millions of dollars in the acquisition and interpretation of the resource delineated under the existing Corsair Unit and the Expansion Area Leases. The Division's Resource Evaluation Staff has repeatedly acknowledged that the Corsair Structure extends under the existing Corsair Unit and the Expansion Area Leases. Unitization of the expansion leases insures a single unified reservoir management plan and the maximum ultimate recovery of the Corsair resource.

There have been several wells drilled in the past by other operators that were used to assist in the interpretation of seismic data and to evaluate and delineate the Corsair structure. Should the Expansion Leases remain expired and be re-leased by another operator, that operator would have to re-evaluate any available seismic data and well logs, identify their prospect, prepare their own exploration and development plan, drill its own wells and establish its own production and transportation facilities. This would clearly and ultimately result in a redundancy in facilities, operations and expenditures that would result in economic waste.

Further, separate management plans and facilities by different operators would result in poor exploration and ultimate recovery of the Corsair structure, resulting in poor reservoir management and a physical waste of the resource. Without a unified exploration and reservoir management plan, there is no way for multiple operators to insure the maximum ultimate recovery from the entire resource.

Fulfillment of the first well commitment by June 30, 2009 is in fact dependent upon approval of the proposed unit expansion. Without those expansion leases, which have been identified to contain approximately two-thirds (2/3rds) of the Corsair Structure, the existing Corsair Unit is uneconomical to explore and produce.

PERL should not be forced into reacquiring the expired leases in any future lease sale. PERL has demonstrated that the Expansion Leases contain a significant portion of the Corsair Structure, which when combined with the existing Corsair Unit leases, make the entire Corsair prospect economical. PERL has already expended enormous amounts of capital and company resources in the delineation of the Corsair Structure. Requiring PERL to bid on the acreage that it has already proven to contain a significant portion of the Corsair structure only facilitates economic waste and is prejudicial and damaging to PERL.

It is in the State's best interest for PERL to expend these monies on exploration and development, rather than the wasteful and unnecessary re-leasing of its prospect acreage.

VI. DISCUSSION OF DESIGN CRITERIA, B., 3. The Protection of All Parties of Interest, including the State. (page 10)

PERL is not at fault for not drilling either the existing Unit leases or the Proposed Expansion Unit leases. PERL did not acquire the leases until August of 2007, and did not obtain approval from the Division as Successor Operator until late November of 2007. Holding PERL responsible for its inability to drilling the leases during the leases' primary terms is unreasonable and unfair. PERL has made every diligent effort necessary, and continues to do so, in an effort to adequately explore and hopefully produce the Corsair resource, ultimately providing additional royalties and taxes to the State.

PERL is NOT using the unitization process to merely extend the primary term and "warehouse" the leases as contended by the Division. This assumption, given the amount of information and data supplied to the Division, is grossly inaccurate and puts the exploration and development of the Corsair resources, as well as the exploration and development of other prospects, at risk. It is in the best interest of the State to approve the Proposed Unit Expansion, as the expansion acreage is critical to the economical exploration and development of the Corsair resources. Without the expansion leases, the prospect is uneconomical and PERL will not be able to justify the delivery of a jack-up drilling rig to the Cook Inlet.

If the DNR approves the proposed unit expansion, the State receives the opportunity of significantly greater revenues than it would from the releasing of the expansion acreage. Increased revenue is in the best interest of the State and the people of Alaska. Should the DNR require PERL to compete for the leases it has already acquired and paid for from Forest, it would severely jeopardize the financial position of PERL in the Corsair prospect. By the Division's denial of the Proposed Corsair Expansion, the Division essentially eliminates PERL's benefit of the bargain it obtained in the acquisition of those leases.

The State's interest is best served by promoting competition for acreage offered in lease sales. However, neither the interests of the State, nor PERL are served by removing significant portions of a prospect from the whole and making the entire prospect uneconomical or functionally difficult to explore and develop. It is in the State's best interest to keep a hydrocarbon prospect intact and undivided.

In the above-referenced section, the Division uses derogatory language inferring that PERL's performance has not been adequate, which is unfair and unwarranted:

> *"- promises given by a lessee that has not timely fulfilled its existing commitments."*

This statement may indeed be applicable to Exxon and perhaps PERL's predecessor Forest , but it is not indicative of PERL's performance and pursuit of the economical and reasonable exploration and development of the Corsair prospect, over which PERL has only had control during the past five (5) months.

It is in the best interest of the public to expand the Corsair Unit, making the entire prospect and identified structure economical to explore and produce. PERL is not requesting the Division to extend these leases beyond their primary term based solely on promises to drill two wells, *despite the fact* that the Division approved the Existing Corsair Unit based solely on the promises to drill two wells. PERL had requested the Division to extend the leases beyond their primary term because those leases contained a significant portion of the Corsair structure, as identified and agreed upon by the Division's Resource Evaluation staff, which would provide for the ultimate economical viability of the entire prospect.

Again, in this section, the Division uses derogatory language unjustifiably stating that PERL's performance has not been adequate, which is unfair and unwarranted:

> *"... when PERL did not meet its drilling rig contract commitment and will not meet its original drilling commitment."*

This statement exhibits little forethought and lacks any rational deliberation as to its basis. The ability to meet the drilling rig contract commitment within only thirty-four (34) days of being approved as the Successor Operator was an impossibility, a fact recognized by the Division in its proposed cure for the Unit default. Not being able to meet the original drilling commitment of December 31, 2008 was also recognized as an impossibility by both PERL and the Division, as evidenced by the Division's approval of the six-month extension to June 30, 2009. These extensions to the work commitments as approved by the Division were necessary and appropriate for the realistic acquisition and delivery of a jack-up rig and a manageable exploration schedule. The Division was fully aware of all the circumstances and contractual difficulties involved in obtaining those POE modifications and extensions, and approved them accordingly. Since the extensions were approved by the Division, the Division is precluded from using the former commitments as justification in its denial of the expansion application.

Therefore, these comments serve no purpose other than an attempt by their author to discredit PERL as a responsible Cook Inlet Operator. These statements are prejudicial and damaging to PERL's reputation and intentions.

As was identified in a previous sections above, the Division states:

> *In addition, it is not in the public interest to expand the Corsair Unit now, given the unit could terminate automatically on April 30 or July 31, 2008, or on June 30, 2009, if PERL fails to meet it [s] current obligation under the Initial POE, as amended by the Division's January 29 and April 1, 2008, decisions.*

The fulfillment of the April 30th commitment was met on April 24th, with the payment of the required non-refundable deposit of $100,000 to the Blake Offshore, LLC. The fact suggests that the Decision was written several days before it was rendered and delivered to PERL. This apparent delay in informing PERL of its pending Decision severely prejudiced PERL and unjustly took away PERL's ability to seek due process from the AOGCC.

The Division cannot use the suspected failure of an event yet to happen in the future as a basis for denying an action in the present. The Division was in error in its conclusion that it was not in the public's interest to expand the Corsair Unit, given that certain obligations in the future may not be met. The Division does not possess the ability to predict the future, nor the authority to make determinations based on the outcome of obligations yet to be known. This determination and conclusion by the Division is both arbitrary and capricious, and exhibits a unquestionable prejudice towards PERL as an Operator and PEAO as lessee.

The Division failed to adequately consider the protection of all parties of interest including PERL, Escopeta Oil Company, LLC, Chevron Oil Company, and ConocoPhillips. By denying the Proposed Corsair Unit Expansion, the Division jeopardizes the economic viability of the exploration and development of the Corsair prospect, as well as many others.

The economic viability of the Corsair prospect is essential for PERL's ability to acquire and deliver a jack-up drilling rig to the Cook Inlet, in the near future. Without this jack-up rig, the exploration and production from the Kitchen and East Kitchen units become at risk. Without this jack-up rig, further step-out development drilling from the existing platforms become at risk as well as the continued acceleration towards the end of the economic life of those platforms. This is not in the best interest of any lessee or Operator in the Cook Inlet.

The Division also failed to adequately consider the protection of another party in interest, Renaissance Oil Company (Renaissance). Renaissance contends and alleges that their adjoining acreage to the expansion leases may hold resources that are in communication with the Corsair prospect. Although this allegation has no basis of fact or relevance according to PERL's interpretation because any communication of resources has yet to be determined, the Division none the less has removed Renaissance's ability to pursue unit negotiations with PERL for inclusion in the Corsair Unit. This is not in the best interest of Renaissance.

The Division failed to adequately consider the protection of all interested parties, including the public, more specifically, the south central Alaskan consumers. With the denial of the expansion acreage, the Division jeopardizes the economic viability of the Corsair prospect. If the Corsair prospect is not economically viable, PERL will be unable to acquire and deliver the jack-up drilling rig to the Cook Inlet. Offshore exploration has been at a virtual stand still for the last two decades. Onshore exploration has declined significantly over the past three decades. As a result of this lack of exploration, no new reservoirs of any significant size have been discovered and the existing reservoirs are in a steep decline in production and reserves. The resultant lack of natural gas reserves has increased the cost of gas dramatically in the Cook Inlet, especially over the last five years. This cost increase has been absorbed by the south central consumer in the form of higher natural gas costs and higher natural gas-generated electricity costs.

Without the arrival of the jack-up rig in the Cook Inlet, no additional offshore exploration and no additional step-out development drilling from the existing platforms will occur. This will only contribute to the acceleration of higher natural gas costs and higher natural gas-generated electricity costs. This is not in the public's interest, nor in the south central Alaskan consumer's interest. By denying the Corsair Expansion Application, the Division is facilitating the increase in natural gas related costs in the Cook Inlet.

V. FINDINGS AND DECISION (page 11)

1. No Drilling has occurred within the primary term of the proposed expansion leases.

PERL did not have the ability to contract for a drilling rig, arrange for delivery of the drilling rig to the Cook Inlet nor drill the wells in either the Corsair Unit or the proposed expansion leases until after November 27, 2007, when the Division approved PERL as the Successor Unit Operator of the Corsair Unit. Both the Division and PERL recognized the onerous commitment requirements and unfortunate inability to meet those work commitments in just thirty-four (34) days. The Division rightfully and properly approved the appropriate extensions of those commitments to allow for an adequate opportunity to reasonably fulfill those commitments. Accordingly, without the reasonable ability to fulfill the requirements of the existing Corsair Unit POE, it was impossible for PERL to drill the expansion acreage within their primary terms either.

The Division's Finding that the expansion leases were not drilled during their primary term is irrelevant. The fact remains that the Corsair structure extends under the expansion acreage. Further, the Division justified the creation of the Corsair Unit with the promise to deliver a jack-up drilling rig to the Cook Inlet and drill two wells within the first twenty-three (23) months of the Division's approval. Denying the unit expansion with a continued promise to deliver a jack-up drilling rig to the Cook Inlet and a promise to drill two additional wells within the first twenty (20) months is not a consistent evaluation and application of the Division's standards.

2. ***PERL neither fulfilled the initial POE drilling work commitment by December 31, 2008, nor has it yet fulfilled the June 30, 2009, drilling commitment.***

PERL received the Division's appropriate, necessary and rightful extension of the December 31, 2008 drilling work commitment to June 30, 2009. The Division willfully and knowingly approved that extension as an adequate measure to allow PERL the reasonable and realistic opportunity to meet the overall intent of the Corsair Unit formation and POE work commitments. The Division has been an active participant in the Corsair Unit negotiations from the date PERL fist acquired the Forest assets in August 2007. The Division seemingly understood the economical and logistical obstacles involved in meeting the onerous work commitment dates that PERL inherited from Forest. The Division acted accordingly in its approval of the necessary modifications and extensions to the original POE. The Division is barred from using its own approval of those modifications and extensions by operation of its responsibilities as the landowner and its regulatory authority over leases and units.

Neither the December 31, 2008 nor the June 30, 2009 drilling work commitment dates have passed. The Division cannot use the suspected failure of an event yet to happen in the future as a basis for denying an action in the present. Any speculation at all, especially concerning the June 30, 2009 drilling work commitment date, is inappropriate. The Division neither possesses the ability to see into the future, nor has the authority to make determinations and decisions on suppositions for activities and events that have yet to transpire.

The Division's Finding that PERL has not met either the December 31, 2008 or the June 30, 2009, drilling work commitments is correct, albeit irrelevant and inappropriate to use as justification for the denial of the Proposed Corsair Unit Expansion.

3. ***Unitization is meant to facilitate efficient reservoir production, not enable warehousing of acreage. Given the Unit's recent history, Corsair Unit expansion will not guarantee delineation and production of the prospect sooner than lease-by-lease development by any lessee.***

The Division states in the fourth paragraph on page 8 of the Decision: *"The initial POE required the Operator to timely conduct exploration, evaluation and development activities that would result in production, if a commercial resource were found, sooner than if the unit were not formed and sooner than would occur under any individual lease exploration effort."* This evaluation and prudent determination, used to justify the original Corsair Unit and POE, holds true today for the Corsair Unit Expansion and Revised POE.

Without the inclusion of the expansion leases, the Corsair prospect becomes uneconomical. Even if the existing Corsair Unit were economic, the removal of the expansion leases would result in a variety of economic and physical wastes due to the lack of efficient reservoir management and production as well as the duplication of facilities, transportation mechanisms and redundant operations.

To reiterate, there is no intention by PERL to use the unitization process as a means to warehouse acreage, as Exxon and others have done in the past with the Point Thomson acreage. Neither is there just cause for the Division to allege PERL is merely trying to warehouse acreage. PERL has made every prudent and reasonable effort to diligently interpret and evaluate the Corsair structure and to commit to realistic work commitments. PERL intends to drill the expansion leases in the next year, not to warehouse them for an indefinite amount of time for some undetermined future exploration or development. PERL's plans and intentions are definite and backed by realistic commitments in the very near future.

The Division is in error in its determination, findings and inferences that PERL is using the unitization of the expansion acreage for no other purpose than to warehouse acreage. The Divisions repeated statements regarding the alleged warehousing of leases and acreage by PERL displays a biased and prejudicial attitude towards PERL and is without any factual basis. Safeguards are built into the Corsair POE to avoid the warehousing of leases.

The Director states that, *"Given the unit's recent history ... "*. This statement implies that the unit's recent history has been unacceptable. It should be noted that the unit's recent history had only been in the control of PERL for four months at the time the Expansion Application was submitted (five months to date).

The simple fact is: The recent history of the Corsair Unit comprised a period of only four months, in which Pacific has been the Operator. This recent history reveals the ONLY concerted effort that has been made to diligently move forward towards the exploration and development of the Corsair Unit since the inception of the leases. So, to say, "given the unit's recent history" in a derogative manner as justification for denying the Corsair Unit expansion is nonsensical. Further, all circumstances concerning the Corsair Unit and the POE during its past history were known by both PERL and the Division at the time of the Division's approval of Pacific as the Successor Operator. The Division has, in fact, been an active and contributing party in both the unit's past and recent history.

The Division has been an active participant in all recent events that have transpired concerning the Corsair Unit since PERL secured the operations and responsibilities of the unit. The Division knew, or should have reasonably known, as an oil and gas lease and unit administrator, at the time of the Successor Operator approval that the existing work commitments were impossible to be met. Accordingly, the Division approved the modifications and extensions to the POE work commitments to enable PERL to have a realistic opportunity to meet those commitments. To do otherwise, the Division would not have been acting in good faith in the public's interest

Because the Division was an active participant and ultimately had control of the unit's recent history, it is inappropriate for the Division to now use any inference as to unacceptable behavior on the part of PERL during that period, given the Division's approval of those plans.

Further, the Division is remiss in its acknowledgement that it was a party to the unit's recent history and any circumstance or event that transpired during that time which was negotiated and approved by itself.

The Division erred in its determination and finding that there is no guarantee the delineation and production from the unit, if expanded, will occur sooner than on a lease-by-lease basis by any lessee. Without the expansion acreage, the economic viability of the entire Corsair prospect is at risk. Should PERL determine that the existing Corsair Unit is uneconomical on its own, without the expansion leases which contain approximately two-thirds (2/3rds) of the structure, PERL will not be able to commit to the delivery of a jack-up drilling rig to the Cook Inlet.

Without the jack-up drilling rig, not only will PERL not be able to delineate and produce the Corsair Unit, but all other potential lessees will not be able to delineate or produce any offshore leases including the expired Corsair expansion leases. To justify the cost of bringing a jack-up drilling rig to the Cook Inlet, the prospect size must be quite large

The acquisition, delivery and operation of the jack-up drilling rig is a commercial issue solely in the control of PERL. It is incumbent upon PERL to make the prudent decision to now contract a heavy lift vessel and deliver the jack-up drilling rig to the Cook Inlet.

If PERL, on its own accord and by its own evaluation, determines that the Corsair prospect is uneconomical as only the existing Unit, it will opt to not deliver the jack-up rig to the Cook Inlet and cut its losses. Additionally, even if PERL did determine the existing Corsair Unit was economic on a stand-alone basis and delivered the jack-up rig to the Cook Inlet, there is absolutely no guarantee that the rig would become available to any lessee for the development of any offshore leases.

With the inclusion of the expansion leases to the existing Corsair Unit, PERL is able to guarantee, in as much as it is able, and far beyond the ability of any other prospective lessee, that the delineation and production of the Corsair Unit and the expansion leases will occur sooner as a contiguous unit development than as would occur on a fragmented lease-by-lease development.

Further, if the expansion acreage is not included in the Corsair Unit, there will exist an almost certainty that no development on a leases-by-lease basis, as well as by a unitized basis will occur.

The Division erred in its determination and finding that the unitization of the expansion acreage will not facilitate efficient reservoir production and guarantee the delineation and production of those leases sooner than on a lease-by-lease basis. The Division did not adequately evaluate and fully consider the geological, technical, contractual, and economical implications of its denial of the Corsair Unit Expansion application. The Division offers no economically viable alternative to expansion of the unit.

4. ***Unitization is not necessary to promote the development of a single resource by multiple working interest owners, as there is only one working interest owner, PERL, in the existing Corsair Unit and the proposed expanded Corsair Unit.***

Even if this contention by the Division were true, by denying the Corsair Unit Expansion, the Division opens the door for the infusion of other, perhaps less motivated or capable, lessees, who will undoubtedly request the expired Corsair acreage to be included into the Corsair Unit, just as PERL is requesting now. In fact, by the Division's denial, the Division in and of itself becomes responsible for creating new working interest owners – thereby making unitization necessary. The Division's denial of the Corsair expansion on the grounds the unitization is not necessary because there is only one working interest owner, establishes the necessity of unitization by creating new working interest owners by its own actions.

Staggered lease terms and multiple working interest owners impede exploration and consolidation of facilities, not encourage it.

Therefore, the Division cannot validly use this argument as a reason for denying the Corsair Unit expansion. If the Division would allow the expansion acreage to be unitized in the future, it has no reason not to unitize the acreage now.

Given the enormous capital investment that PERL has expended to acquire Forest's assets, including the Corsair Unit, combined with the recent costs associated with the seismic interpretations and structure evaluations as well as the costs of the POE commitments, allowing the opportunity for another working interest owner to possibly gain an unearned economic position in the Corsair Unit gives the prospective new working interest owner an unfair advantage and does not promote the development of a single resource.

FURTHER, Pacific Energy Resources, Ltd. requests the Lt. Governor and the Commissioner to consideration on the following points:

1. The request for the Corsair Unit Expansion is not unusual, unreasonable or out of the ordinary. During the course of a unit's life, the requirement or necessity to either contract or expand a unit is a matter of continual consideration, irrespective of any subject lease's expiration date. It has been common practice for the Division since the leasing of State lands for oil and gas exploration to approve the expansion (or contraction) of unit areas as a matter of necessity to allow the unit boundaries to encompass the entire underlying reservoir.

   Additionally, it has been common practice for the Division in its leasing of State lands for oil and gas exploration to approve certain other unit actions, including Plan of Exploration amendments and expansions, as a matter of necessity to allow certain unit activities to adequately and efficiently manage or produce the unit's underlying reservoir.

In fact, albeit inappropriate and erroneous, the Division has either acquiesced in the administration of its authority or approved such amendments and extensions for Exxon's Point Thomson Unit over the past two decades. Now that the Division has decided to right that wrong with Exxon, they are apparently attempting to use the same heavy-hand inappropriately on PERL.

This is neither fair nor justified. As stated several times, and as a matter of record, PERL had only been the Operator of the Corsair Unit for four months, not thirty years, and it has only requested a couple of amendments or extensions, not dozens. To hold PERL to a higher standard than that which has been used for Exxon or any other Operator in the State of Alaska is unjust, unfair, inappropriate, prejudicial, biased, and does not afford PERL equal treatment under the law.

2. It is in the State's best interest to have a jack-up drilling rig in the Cook Inlet to put an end to the decades of non-exploration offshore. Since PERL's acquisition of Forest Oil Corporation for more than $440,000,000, PERL has endeavored to negotiate acceptable Unit agreements and Plans of Exploration and Development for its fields and prospects.

   Since the capital expenditure of more than 440 million dollars, PERL has diligently pursued the acquisition and delivery of a jack-up drilling rig to the Cook Inlet by not only accepting the additional requirements and stipulations imposed by the Division for the Corsair development, but by the following additional commitments:

   a) a $100,000 non-refundable deposit to Blake Offshore, LLC as an additional requirement to the drilling rig contract that was signed on March 7, 2008;

   b) a commitment of $12,000,000 as a drilling rig mobilization fee to Blake Offshore, LLC;

   c) a commitment of $125,000 PER DAY rig operating rate for the 1st year to Blake Offshore, LLC;

   d) a commitment of $135,000 PER DAY rig operating rate for the 2nd and 3rd years to Blake Offshore, LLC;

   e) a future commitment of at least $7,700,000 for a heavy lift vessel; and

   f) a commitment to Escopeta Oil Company, LLC for the use of its Jones Act waiver to operate the foreign heavy lift vessel in U.S. Waters.

   Because of the oceanic route that the heavy lift vessel must take to reach Alaska (around the tip of South America), and the inclement weather in the winter of the southern hemisphere, the earliest the jack-up drilling rig would be able to leave the Gulf of Mexico is late-December of 2008. It will take approximately 50 days to transport the drilling rig to the Cook Inlet, putting the drilling rig's arrival date at late February, at the earliest.

An 18,000 foot well in the Cook Inlet is estimated to require approximately six weeks, including mobilization, rig-up, drilling, testing, suspending, rig-down, and demobilization time. Accordingly, a well of this nature will cost approximately $5.25 million dollars in daily rig rates and another 14.75 million dollars in supplies and materials, putting the total well cost at approximately $20,000,000.

Therefore, the total cost to PERL to acquire, mobilize, deliver and drill the first well in the Cook Inlet will be in the neighborhood of $40,000,000, not including lease and permitting costs. PERL does not take this commitment lightly, nor should the DNR with the potential benefits that could be attributed to the State.

3. If the Division was not satisfied with PERL's proposal for the expansion of the Corsair Unit and the associated proposed Revised Plan of Exploration, given the expansion leases pending expiration, the Division could have, at any time prior to the lease's expiration, suspended operations as allowed under the lease agreement, to allow adequate time to negotiate an acceptable Unit expansion agreement and Revised Plan of Exploration, suitable to both the Division and PERL.

   The Division had other options available during the Public Review period that would have also afforded PERL the opportunity to agree to the terms and conditions necessary to make the Expansion Application and Revised Plan of Exploration acceptable to the Division.

   The Division's failure to give PERL the opportunity to accept terms for the unit expansion and Plan of Exploration, and come to a meeting of the minds, was not negotiating in good faith by the Division, and did not afford PERL its earned right as Operator and lessee to due process. Moreover, the Division denied PERL the ability to agree to terms that would have been acceptable to the Division. This questionable negotiating has severely prejudiced and damaged PERL.

4. PERL began good faith negotiations with the Division for a realistic and acceptable Plan of Exploration immediately after becoming approved by the Division as the successor Operator of the Corsair Unit. Throughout the negotiations with the Division regarding the Corsair Unit and the Plan of Exploration, and subsequent default cures, acceptance of additional stipulations, conditions, obligations and commitments by PERL, and acceptance of the default cures and extension approval, the Division has appeared, although resistant and apprehensive in many instances, to ultimately support PERL's diligent effort to meet the work commitments.

   PERL has devoted considerable financial and company resources in an effort to bring a jack-up drilling rig to the Cook Inlet to explore and produce the Corsair prospect. The Division has imposed stringent requirements and commitments on PERL to insure, to its satisfaction, that PERL will follow through with its plans to acquire and deliver a jack-up drilling rig to the Cook Inlet and explore and produce the Corsair prospect.

Now that virtually all the commitments and requirements imposed on PERL by the Division have been met, and PERL has completely interpreted the data necessary to delineate the entire Corsair structure, which indicates the primary oil targets underlie the expansion leases, and on the cusp of having the jack-up drilling rig on its way to the Cook Inlet, the Division makes an unwarranted, prejudicial and extremely damaging Decision not allowing PERL to include the leases that contain two-thirds (2/3rds) of the primary oil reservoir into the Corsair Unit.

In essence, the Division misled PERL, imposing onerous conditions and stipulations, including the required submission of a non-refundable $100,000 deposit. The Division allowed PERL to believe it would be able to explore and develop the entire Corsair prospect, and then took away two-thirds (2/3rds) of the structure which included the primary oil drilling targets. These actions and the Division's Decision to deny PERL the unit expansion are nothing less than reprehensible.

5. After spending over a half of a Billion dollars to gain the Alaskan assets and evaluate the prospects, and having only been an operating company in Alaska for eight (8) months, PERL has earned the right to prove up on its investment. The denial of the Corsair Unit expansion and the Division's preference to have the expansion leases expire are unfair takings of PERL's investment and proprietary information. To further willfully take this investment and offer it to another party with no compensation to PERL whatsoever is nothing less than constructive theft by the Division.

6. PERL is a real company with an Alaskan office and presence, it has invested real money in Alaska's economy, and has on-going operations and concerns that continue to provide revenue to the State and local businesses. It is not Exxon. The Division should be the State's advocate for responsible development of its oil and gas resources, not an agency with an adversarial role.

   When a viable and energetic company comes to the Division with a prudent and reasonable plan for <u>any</u> exploration or development activity that will enhance the current exploration and development in the State of Alaska, the Division should say: "Welcome to Alaska, how we can help you develop our resources?" Instead, in the case of PERL and the Corsair Unit, the Division appears to have more the attitude of: "Here comes another company, how can we make their efforts difficult, and how can we find a reason to say no to their plans?"

   Quite simply, this is not good business practice for the State and it DOES NOT encourage exploration and development.

7. Because the Division did not give its full and unbiased consideration of PERL's Unit Expansion Application and proposed Revised Initial Plan of Exploration; and because the Division failed to adequately consider all the aspects of PERL's proposed unit expansion and Plan of Exploration as it relates to the conservation of resources or the economical and physical waste or resources; and because the Division failed to adequately consider what

was actually in the best interest of the State, the public, and PERL; and because the Division did not adequately consider and fully evaluate the implications of its Decision; and for all of the other reasons identified throughout this Appeal; the Division's Decision to deny the Expansion of the Corsair Unit and the denial of the proposed Revised Initial Plan of Exploration is erroneous, unjustified, unwarranted, prejudicial, damaging, arbitrary and capricious, and should be reversed.

"Balance of Hardships" Test

Case law exists relative to the situations presented in this Appeal. The present matter focuses upon the Division's Denial of PERL's Application for the First Expansion of the Corsair Unit, a situation in which the Division cannot demonstrate any damages to the Department of Natural Resources or the State of Alaska if the Application were approved. Conversely, PERL can show significant damages if it is forced to relinquish the expansion acreage and the underlying resources. An appellant rule applies where the party seeking the appeal stands to suffer irreparable harm and where, at the same time, the opposing party can be protected from injury. This rule was set out by the United States Supreme Court in *Ohio Oil Co v. Conway*, 279 U.S. 813, 49 S.Ct. 256, 73 L.Ed. 972 (1929) and has been expanded by both federal and state courts in later jurisprudence:

> *Where the matters presented by an appellant for an appeal are grave, and the injury to the Appellant will be certain and irreparable if the appeal is not granted, while if the appeal is granted the injury to the opposing part will be inconsiderable, or may be adequately indemnified by a bond, the appeal usually will prevail. Id.*

This approach requires balancing the hardships by weighing the harm that will be suffered by the appellant if an appeal is not granted, against the harm that will be imposed upon the opposing party by the granting of an appeal.[1]

In this matter, an appeal pursuant to 11 AAC 83.02 of the Director's Decision to Deny the Application for the First Expansion of the Corsair Unit – ultimately resulting in the loss of a portion of PERL's oil and gas prospect to which it has devoted significant amounts of financial, tangible and intangible resources to acquire – must be granted because such a Decision will not cause either the Department of Natural Resources or State of Alaska irreparable harm. However, PERL will suffer irreparable injury and financial losses if PERL is denied the Expansion of the Corsair Unit, loses the expansion leases and the underlying resources.

Regardless of the outcome of this Appeal, the State of Alaska retains its royalty interest in the underlying resources and therefore is not at risk of any damages related to the entity that has the care, custody and control over those leases (whether the underlying resource remains in the control of PERL or any other potential lessee or Operator).

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[1] *A.J. Industries, Inc. v. Alaska Public Service Commission*, 470 P.2d 537, 540 (Alaska 1970)(citations omitted).

Because of the reasons stated elsewhere in this Appeal, it is highly unlikely and perhaps impossible that (1) the expansion leases subject to this Appeal could be explored and produced faster by another Lessee or Operator, and (2) the resource underlying the expansion leases could be produced faster on a lease-by-lease basis than it could be produced under unitization. Therefore, the State of Alaska is at no risk of damages whatsoever should the leases remain in the control of PERL.

If PERL loses its expansion leases, it will lose the underlying resources which it has endeavored to identify and any potential revenue that might be derived from that resource. These damages speak for themselves. Further, should the leases expire and become available in any subsequent lease sale, in order for PERL to reacquire those leases it will have to be the highest bidder in a competitive lease sale, likely spending hundreds of thousands of dollars reacquiring the leases because the industry is generally aware of the underlying resources contained in these leases. This is money that PERL would not have otherwise had to spend should the leases not expire.

The State of Alaska will also suffer damage if the leases are left to expire, as fragmented lease-by-lease development will delay the time it will take to produce the leases, and will also result in a waste of economical and physical resources.

Losing the expansion leases and the underlying resources will be a grave injustice and will result in irreparable injury to PERL. Therefore, PERL urges the Lt. Governor and the Commissioner of Natural Resources to grant the Appeal and approve the Application of the First Expansion of the Corsair Unit for the reasons stated above.

IT IS THEREFORE REQUESTED by Pacific Energy Alaska Operating Ltd., as the lessee, and Pacific Energy Resources Ltd., as the Corsair Unit Operator, that the Lt. Governor of Alaska and the Commissioner of Natural Resources issue a Decision that the Application for the First Expansion of the Corsair Unit and the accompanying Revised Initial Plan of Exploration, dated March 18, 2008, is in the best interest of the State of Alaska.

IT IS FURTHER REQUESTED by Pacific Energy Operating Alaska Ltd., as the lessee, and Pacific Energy Resources Ltd. , as the Corsair Unit Operator, that the Lt. Governor of Alaska and the Commissioner of Natural Resources Approve the Application for the First Expansion of the Corsair Unit and the accompanying Revised Initial Plan of Exploration, dated March 18, 2008.

This DECISION and APPROVAL will support and allow for the prudent and responsible exploration and development of the Corsair Structure in a timely and efficient manner, it will also support and encourage PERL's efforts to bring the desperately needed jack-up drilling rig into the waters of the State of Alaska and renew the stagnated exploration and development of the Cook Inlet Basin and possibly other offshore basins throughout Alaska.

This DECISION and APPROVAL will not prejudice nor damage the State of Alaska in any manner, either administratively, procedurally or financially.

Your time and consideration of this Appeal is greatly appreciated. We look forward to discussing our plans and these issues with you, if necessary.

Respectfully Submitted,

PACIFIC ENERGY ALASKA OPERATING LLC

By: _____
Vladimir Katic
Executive Chairman & Chief Operating Officer

Cc: Kevin Banks, Acting Director
State of Alaska
Department of Natural Resources
Division of Oil and Gas
550 W. 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

Attachments: Application for the Approval of the First Expansion of the Corsair Unit
Revised Exhibit "A" to the Corsair Unit Agreement
Revised Exhibit "B" to the Corsair Unit Agreement
Revised Exhibit "G" to the Corsair Unit Agreement
(Revised Initial Unit Plan of Exploration)
Attachment No. 1 to the Revised Initial Unit Plan of Exploration

DENIAL of the Application for the First Expansion Corsair Unit

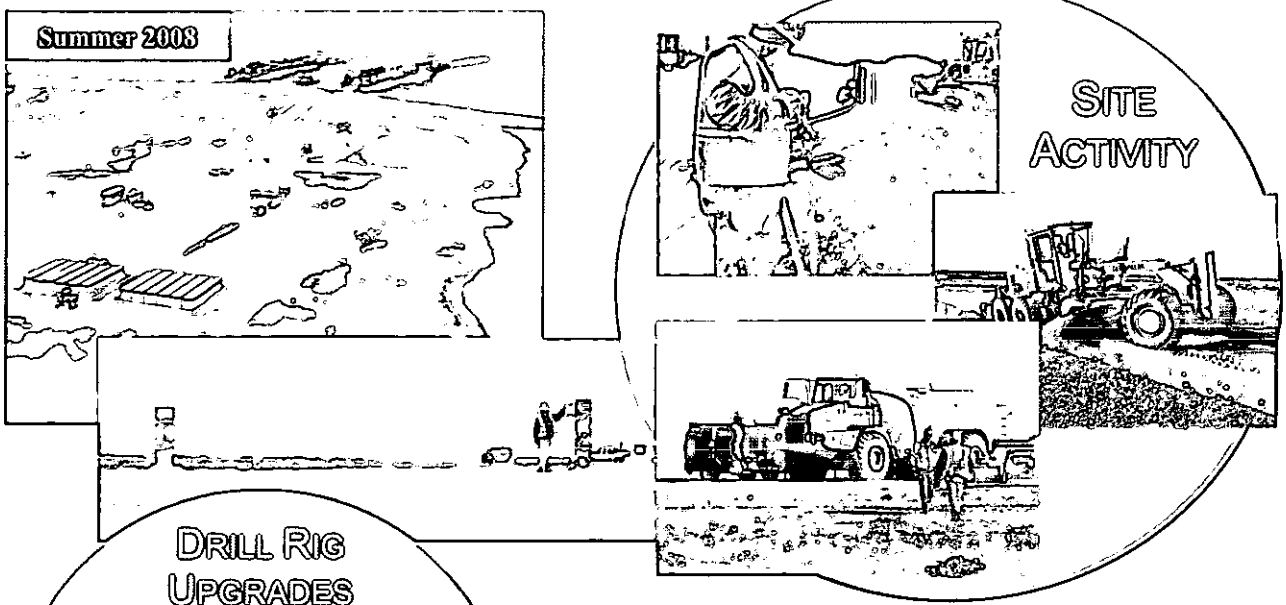
Acceptance as Successor Unit Operator for the Corsair Unit
Corsair Unit Default Cure
Offshore Daywork Drilling Contract with Blake Offshore, LLC
Confirmation of $100,000 Deposit to Blake Offshore, LLC

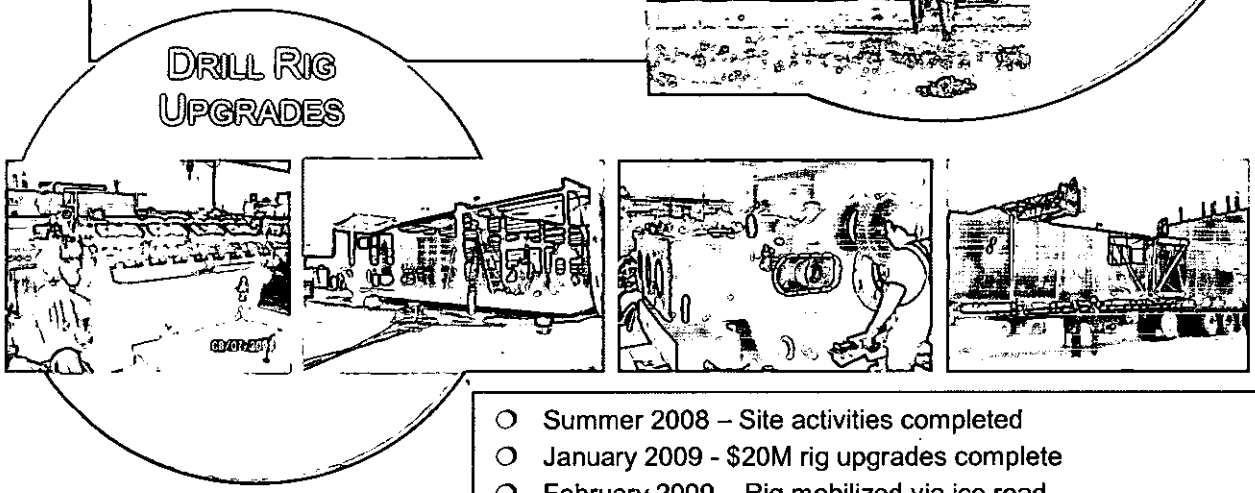
Resource Development Council Letter regarding Exxon / Pt. Thomson

The following are requested to be held confidential under AS. 38.05.035:

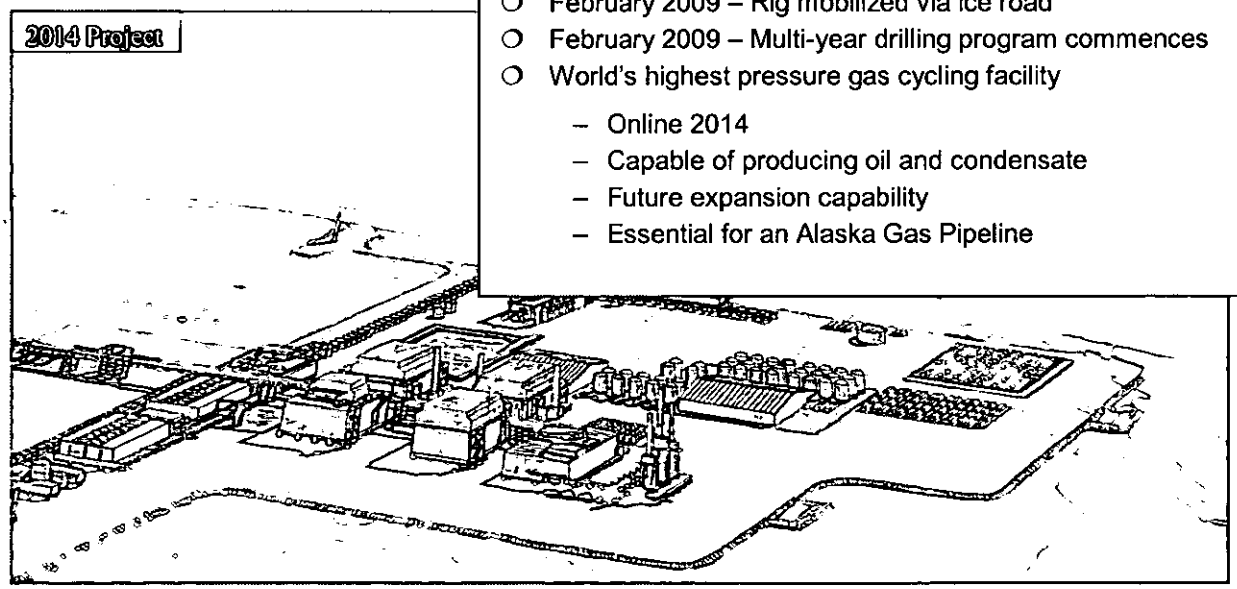
Geophysical Report for the Corsair Unit
Corsair Structure Resource Evaluation

Point Thomson Project

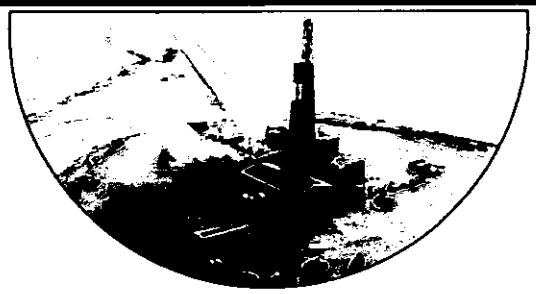




- Summer 2008 – Site activities completed
- January 2009 - $20M rig upgrades complete
- February 2009 – Rig mobilized via ice road
- February 2009 – Multi-year drilling program commences
- World's highest pressure gas cycling facility
  - Online 2014
  - Capable of producing oil and condensate
  - Future expansion capability
  - Essential for an Alaska Gas Pipeline



Progress Report: Point Thomson



The Point Thomson working interest owners are proceeding with the drilling program at the Point Thomson Unit, with drilling to commence in February 2009.

Point Thomson will be the highest pressure gas cycling project in the world, employing world-class drill wells. This project is an investment of approximately $1.3 billion, including a multi-year development and delineation drilling program.

With the arrival of equipment and materials by barge at the drilling site, the Point Thomson owners are moving forward with essential site preparation tasks to be ready to accept the upgraded drilling rig.

ExxonMobil and the other 26 Point Thomson owners wish to publically thank the more than 150 people from more than 30 companies in Alaska who are working to progress these development activities.

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Taking on the world's toughest energy challenges.™

Thanks to the many Alaska companies and hundreds of employees working on Point Thomson.

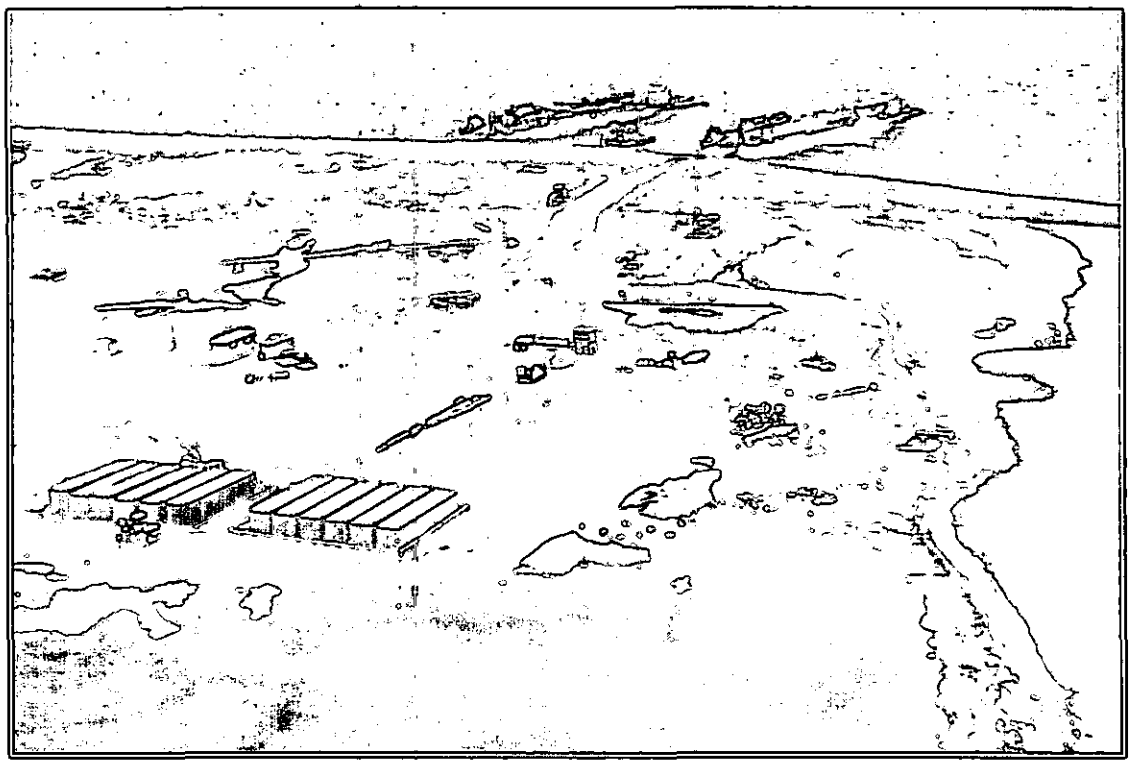
Air Logistics of Alaska, Inc.
Alaska Clean Seas
Alaska Industrial, LLC
Atigun Incorporated
Aurora Automotive, Welding and Fabrication
F Robert Bell & Associates
Brooks Range Supply, Inc./ Colville, Incorporated
Cameron
Carlile Transportation Systems
Cellar Tech
Chiniak Environmental Consulting
Crowley Alaska, Inc.
Delta Leasing, Inc.
Doyon Universal Services, LLC
Duane Miller & Assoc.
ENTRIX Environmental Consultants, Inc.
Epoch Well Services, Inc.
ERA Helicopters, Inc.
Fairweather E&P
Fairweather, Inc.
W.W. Grainger, Inc.
Halliburton
Hydril Pressure Control, a GE Oil & Gas business
Lewellen Arctic Research, Inc.
Marsh Creek, LLC
MI SWACO
MRO Sales, Inc.
Nabors Alaska Drilling, Inc.
National Oilwell Varco
Northland Wood Products, Inc.
Quadco, Inc.
SLR
Schlumberger
TerraSond Limited
Udelhoven Oilfield System Services
Frontier Alaska

POINT THOMSON PROJECT

Commitment to Produce

Point Thomson Project - Progress Update

POINT THOMSON PROJECT



December 1, 2008
House Resources and House Judiciary Joint Committee

Craig A. Haymes
ExxonMobil Alaska Production Manager

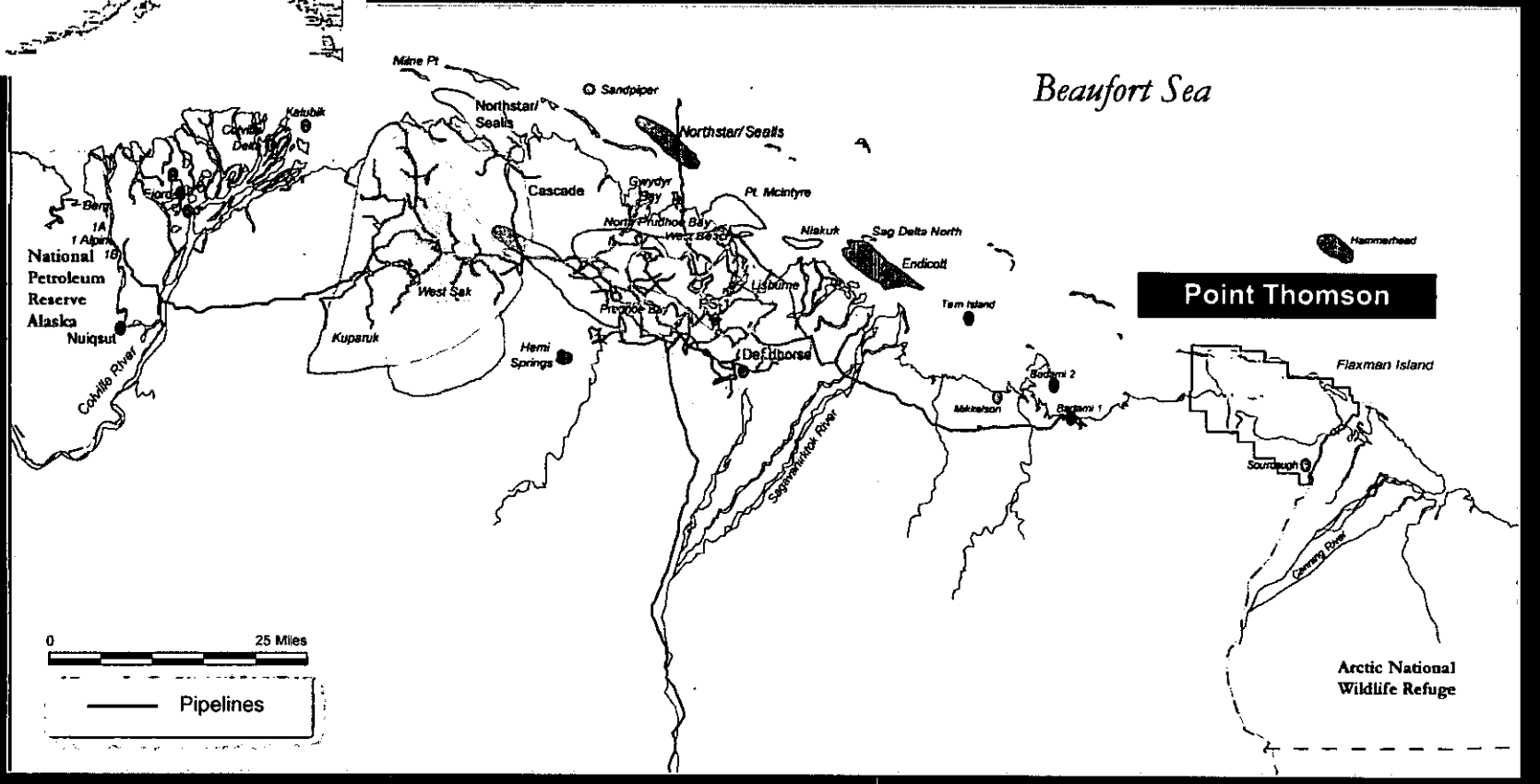
ExxonMobil

1971

Point Thomson – Isolated from Rest of North Slope

POINT THOMSON PROJECT

- Located in remote and environmentally sensitive area
- 60 miles east of Prudhoe Bay and TransAlaska Pipeline
- 22 miles east of Badami



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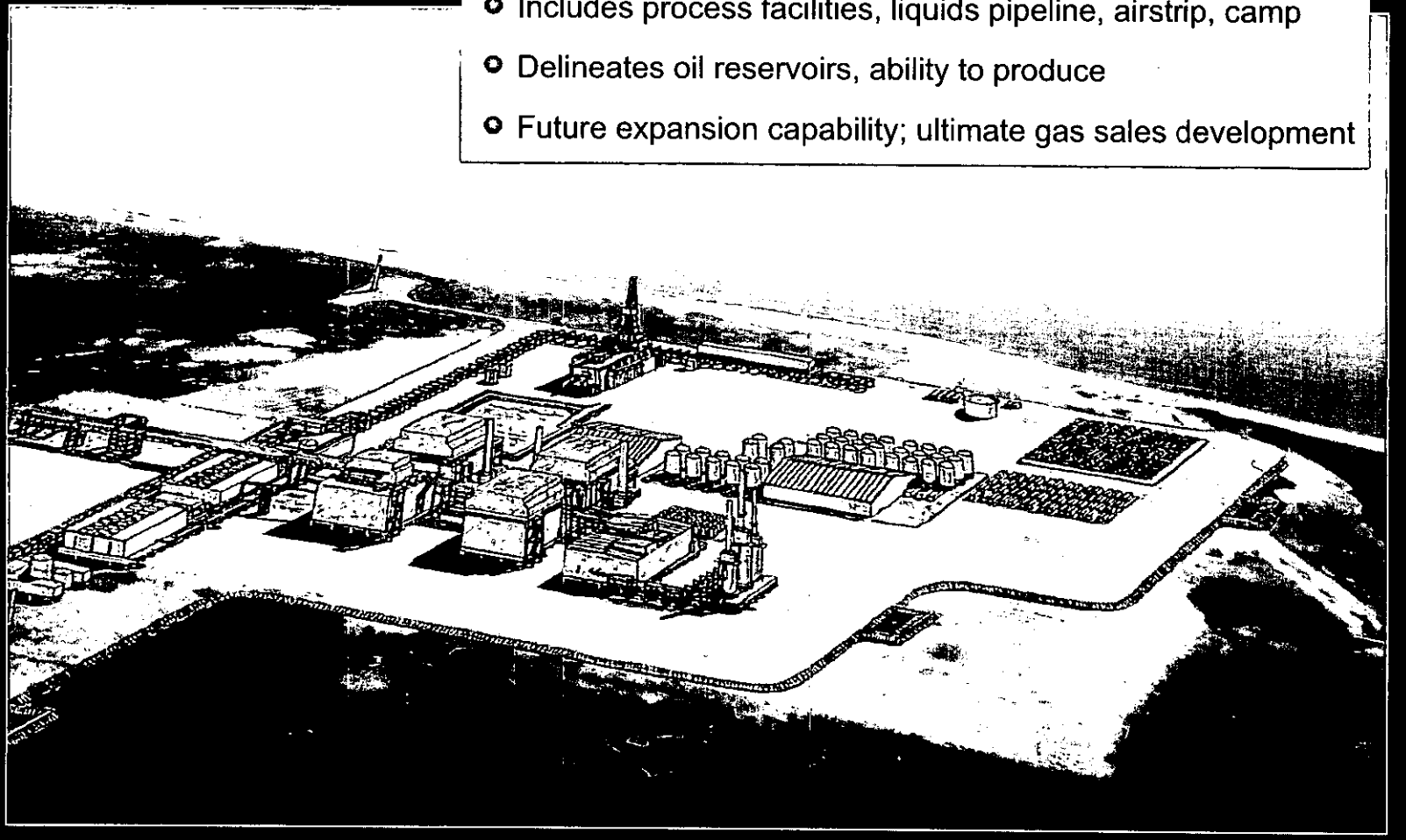
Point Thomson Project – Initial Development Phase

POINT THOMSON PROJECT

Project Illustration

- Production by YE 2014: 10,000 BPD, inject remaining gas
- Includes process facilities, liquids pipeline, airstrip, camp
- Delineates oil reservoirs, ability to produce
- Future expansion capability; ultimate gas sales development



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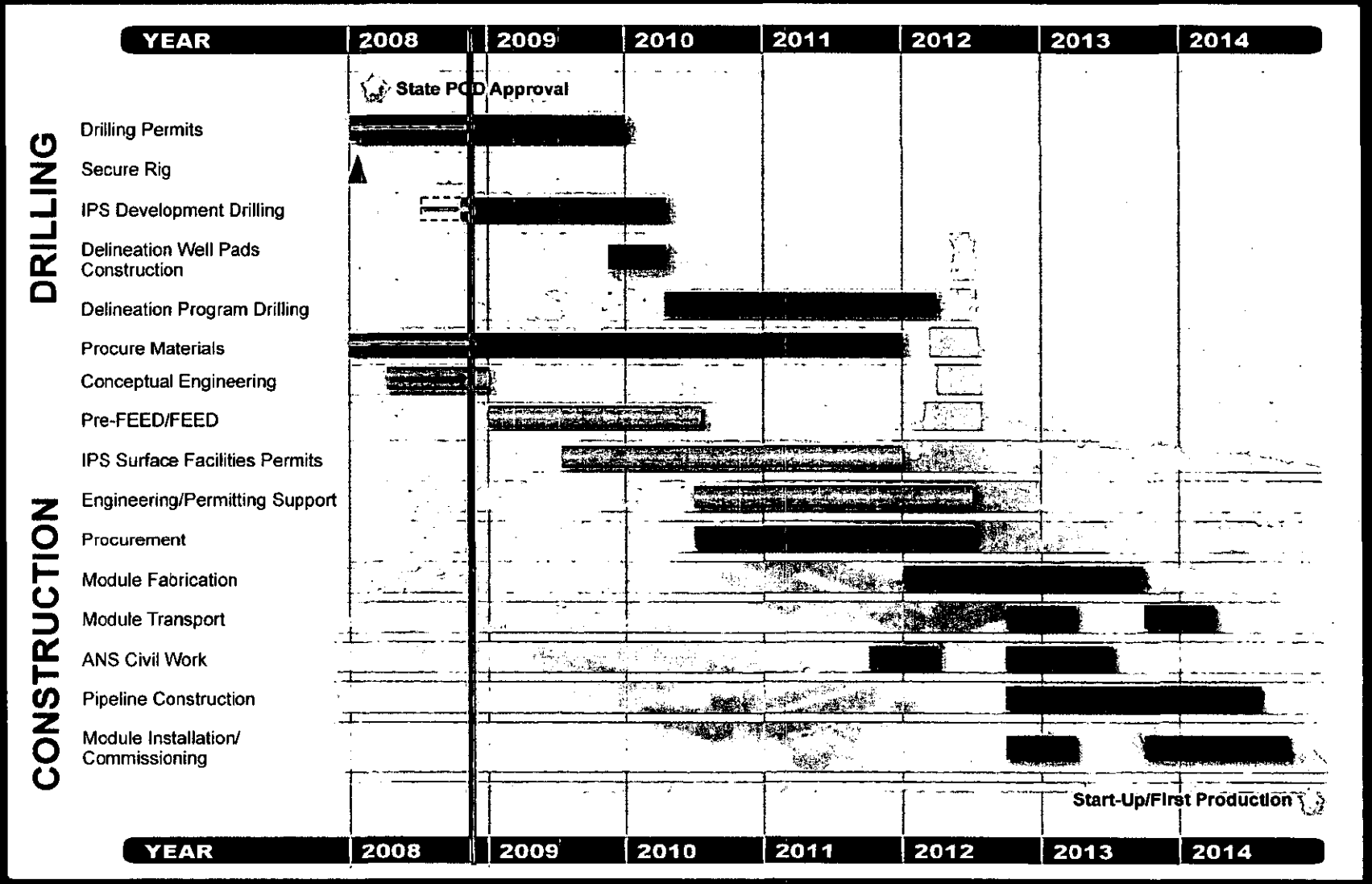
Point Thomson Project - Clear & Committed Timeline

POINT THOMSON PROJECT



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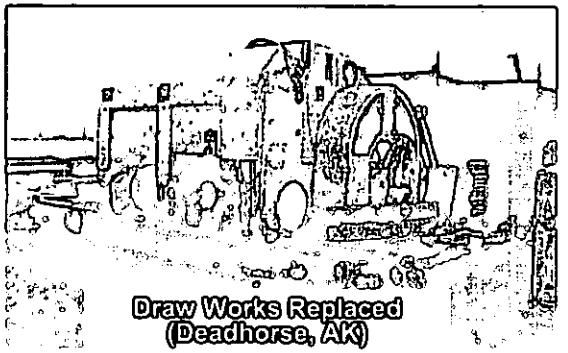
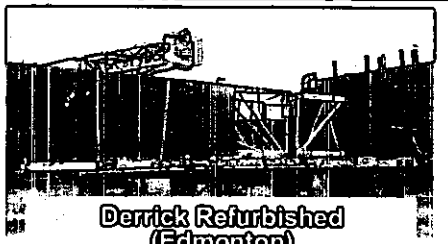
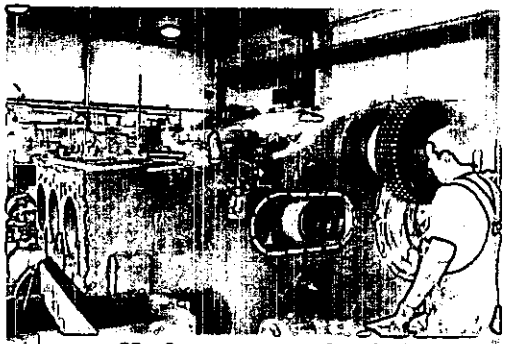
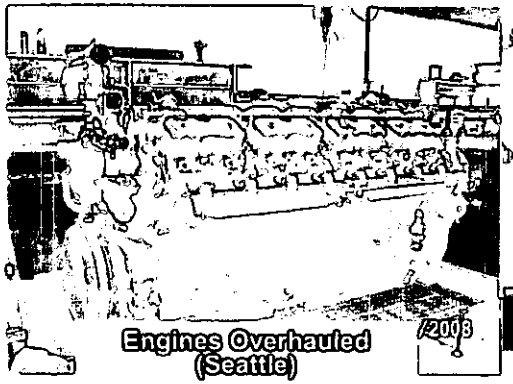
Point Thomson Project – Nabors 27E Drill Rig Upgrade

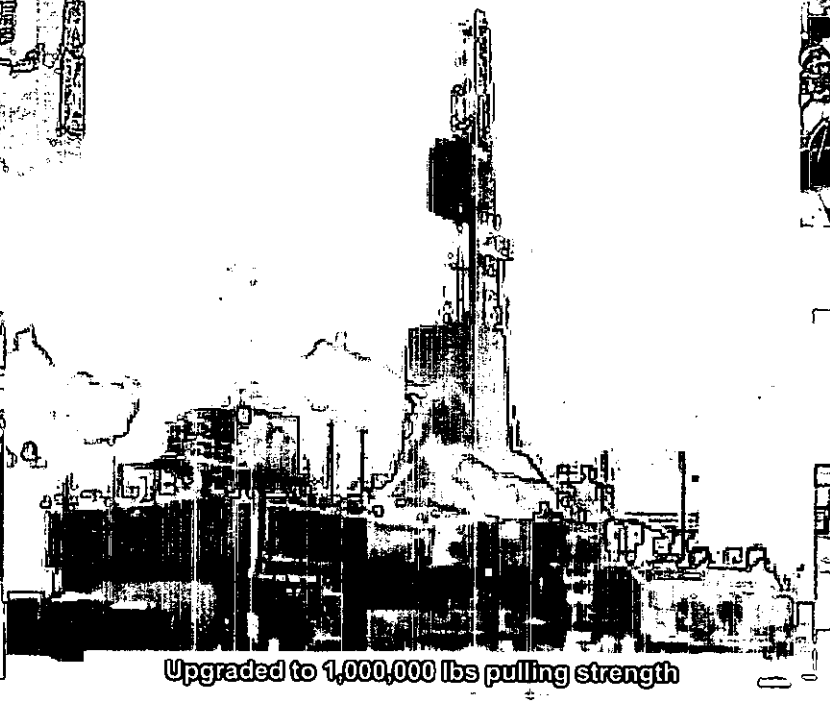
POINT THOMSON PROJECT

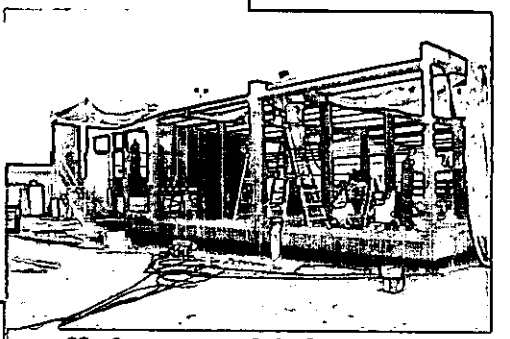

Draw Works Replaced
(Deadhorse, AK)


Derrick Refurbished
(Edmonton)


Mud pumps overhauled
(National Oilwell, Anchorage)


Engines Overhauled
(Seattle)


Upgraded to 1,000,000 lbs pulling strength


Mud pump module fabrication
(Aurora, Anchorage)

- $20M rig upgrades on schedule - completion January 2009
- Rig mobilized to Point Thomson site in February 2009
- Multi-year drilling program commences February 2009

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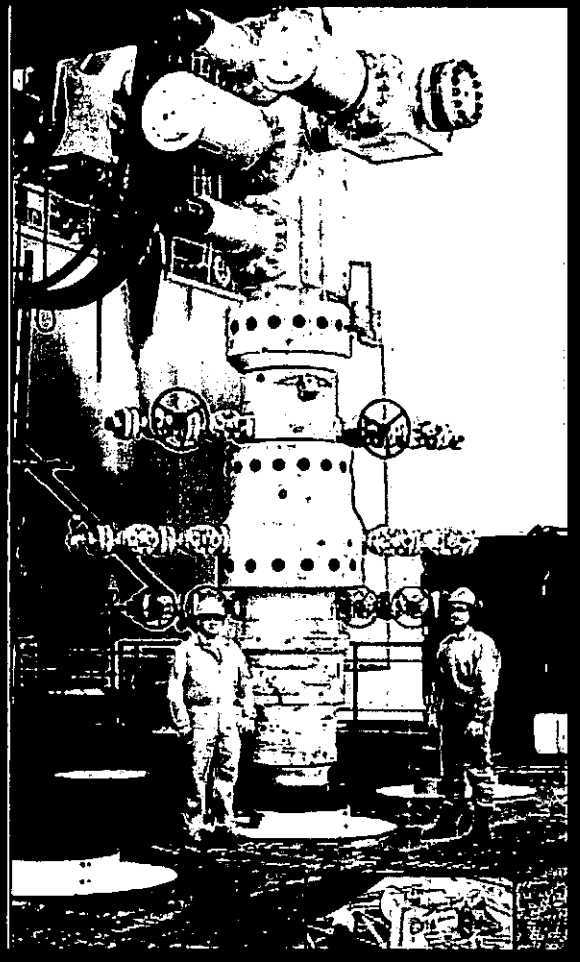
Wells Required for High-Pressure Operations

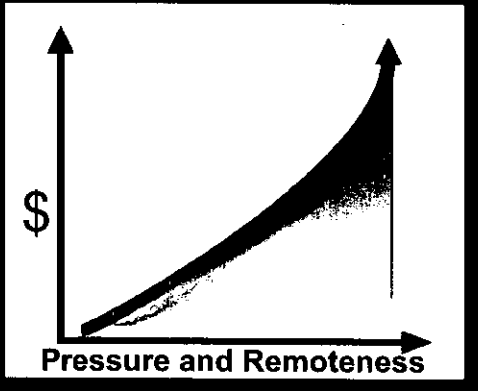
POINT THOMSON PROJECT

15 kpsi Wellhead



Point Thomson Drilling

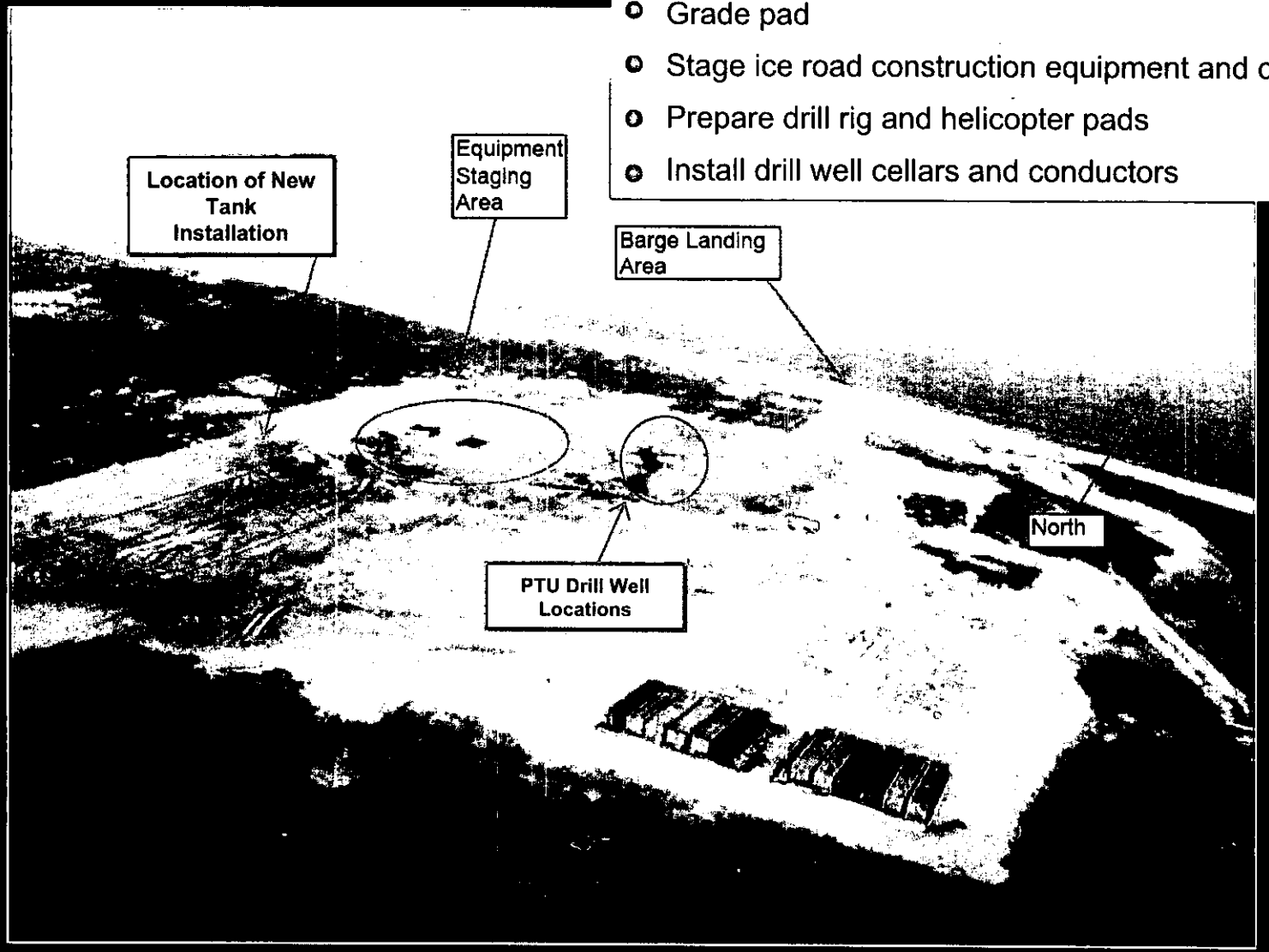
- Abnormal pressure
- Extended reach
- Heavy mud
- World class wells



Point Thomson Project – Site Activity

POINT THOMSON PROJECT

- Grade pad
- Stage ice road construction equipment and camp
- Prepare drill rig and helicopter pads
- Install drill well cellars and conductors



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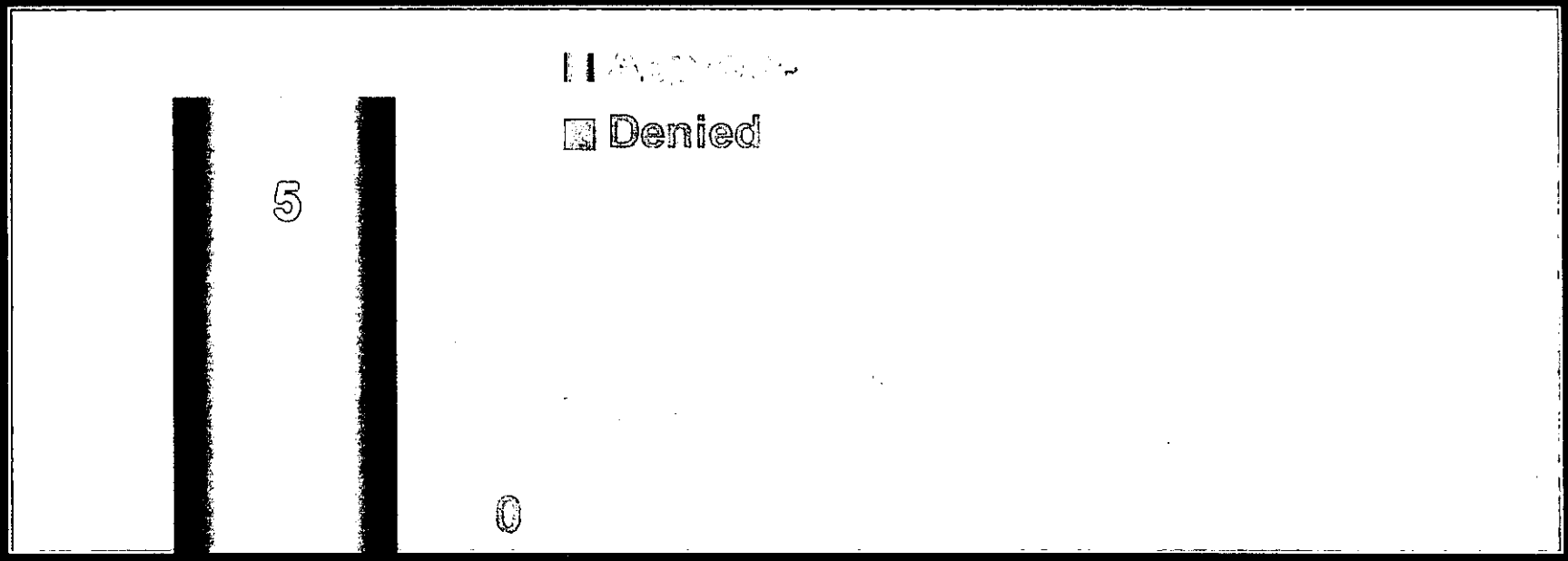
Point Thomson Project – Permits

POINT THOMSON PROJECT



Summer Work

- Summer permits requested June 2008
- All 5 permits approved Jul / Aug
  - DNR, ADFG, NSB, AEWC, USFWS
- Working with state, federal, and local agencies

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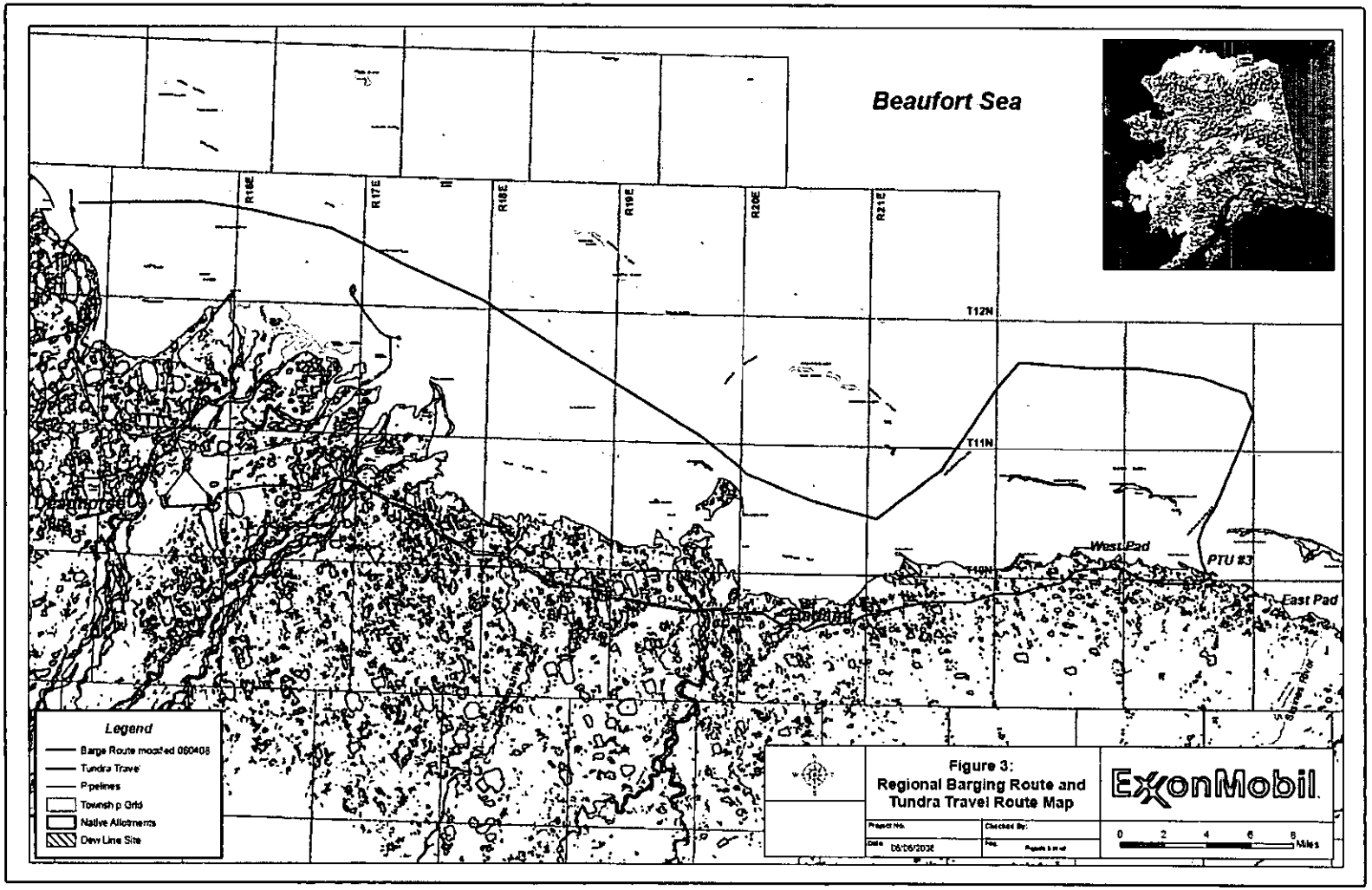
Point Thomson Project – Barge Route

POINT THOMSON PROJECT



- 60 miles from Prudhoe Bay dock to Point Thomson site
- Working with North Slope Borough, villages, and AK Eskimo Whaling Commission
- Modified route to address subsistence concerns

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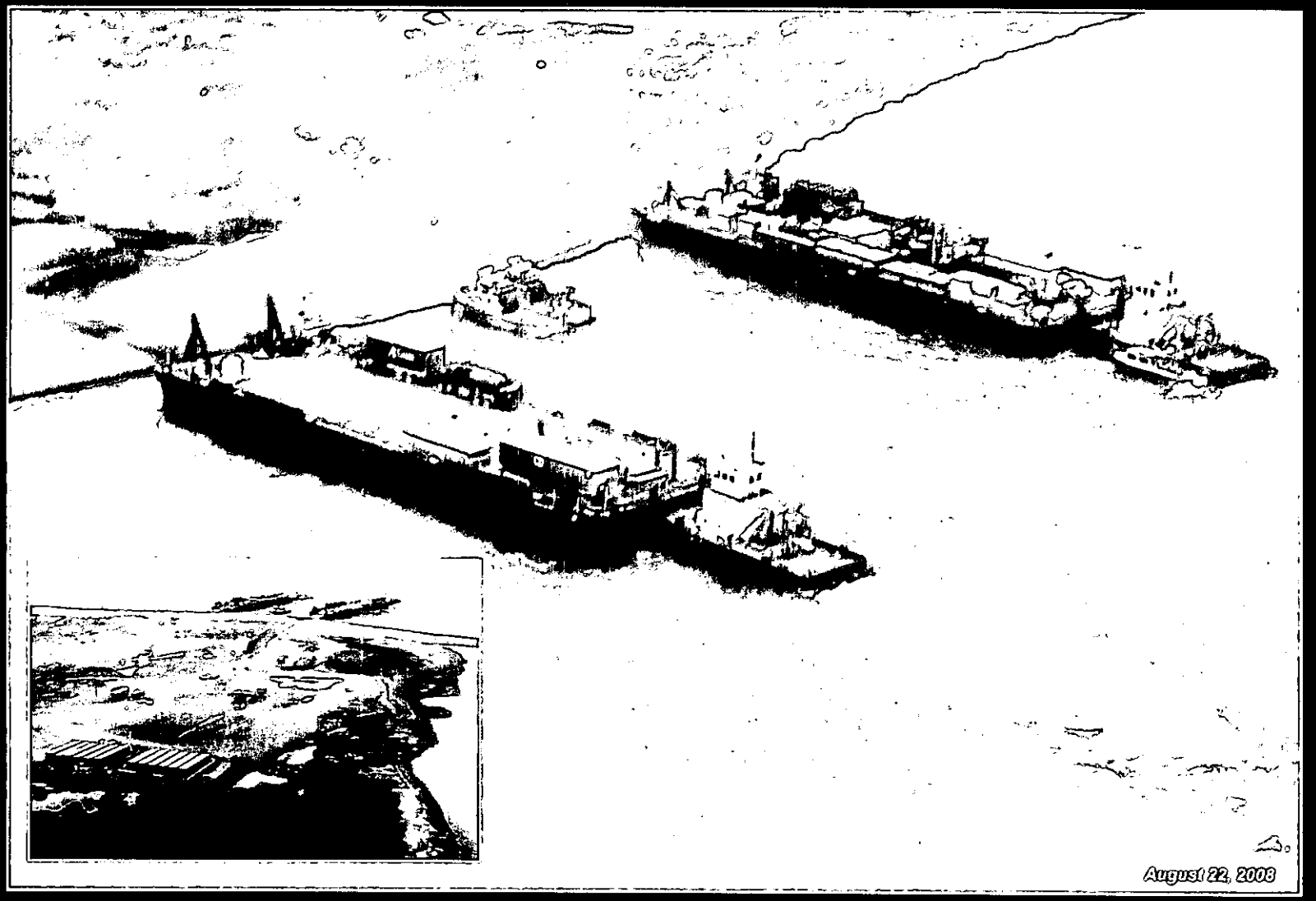
Point Thomson Project – First Barges Arrive at Site

POINT THOMSON PROJECT



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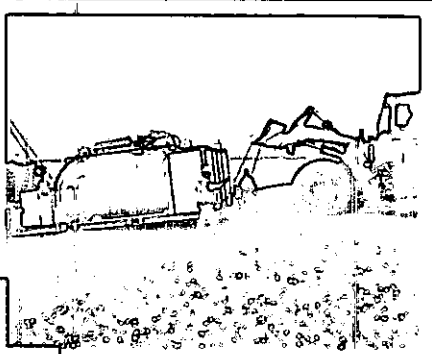
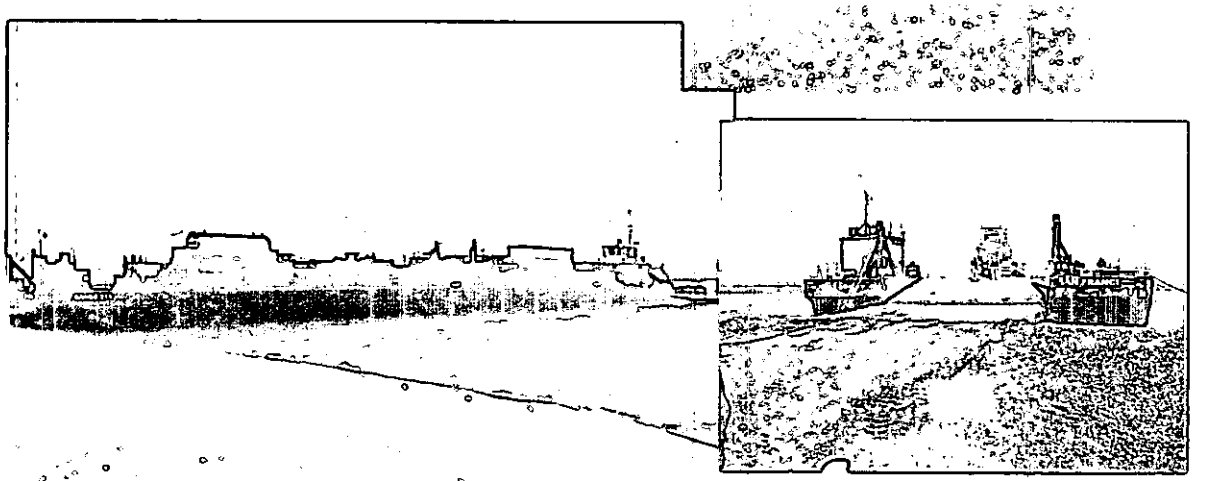
Point Thomson Project – Barges Offload

POINT THOMSON PROJECT





Two 200 x 60 ft barges arrive at site

Onsite Safety Briefing

- 700 tons of equipment and material

Offloading barge

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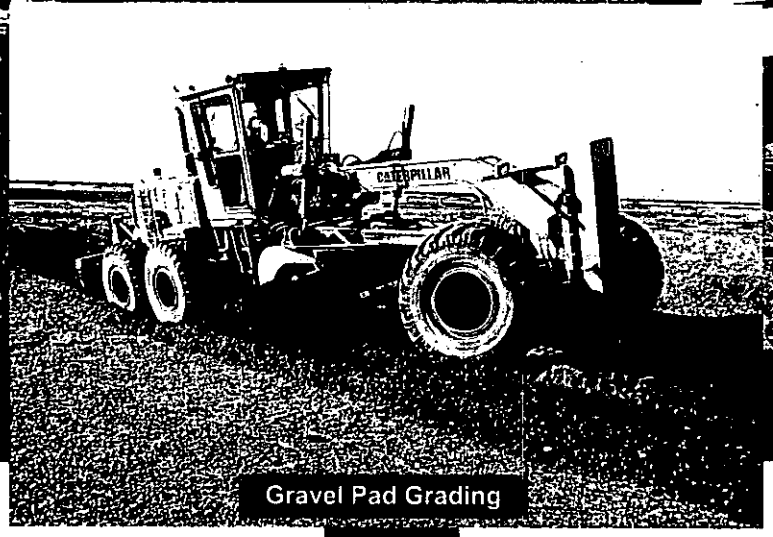
Point Thomson Project – Site Activity

POINT THOMSON PROJECT

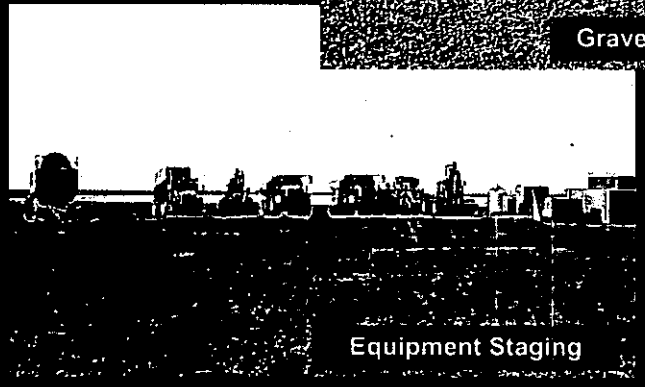

Water Truck for Winter Construction


Site Survey



Gravel Pad Grading


Crew Changeout


Equipment Staging


Onsite Camps

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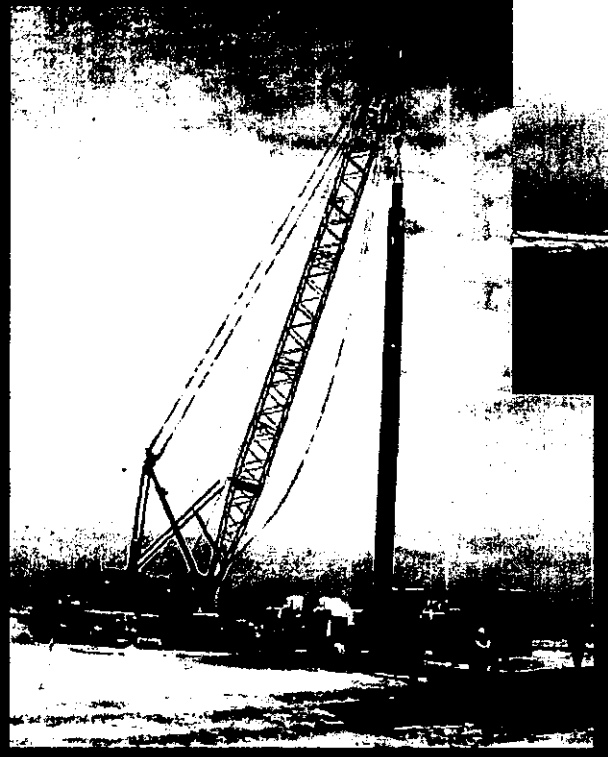
1982

Point Thomson Project – Well Conductors

POINT THOMSON PROJECT



- Two well conductors drilled to ~120 ft
- Additional well conductors to be set with 27E drilling rig
- Initial conductors to support ~$500M multi well program

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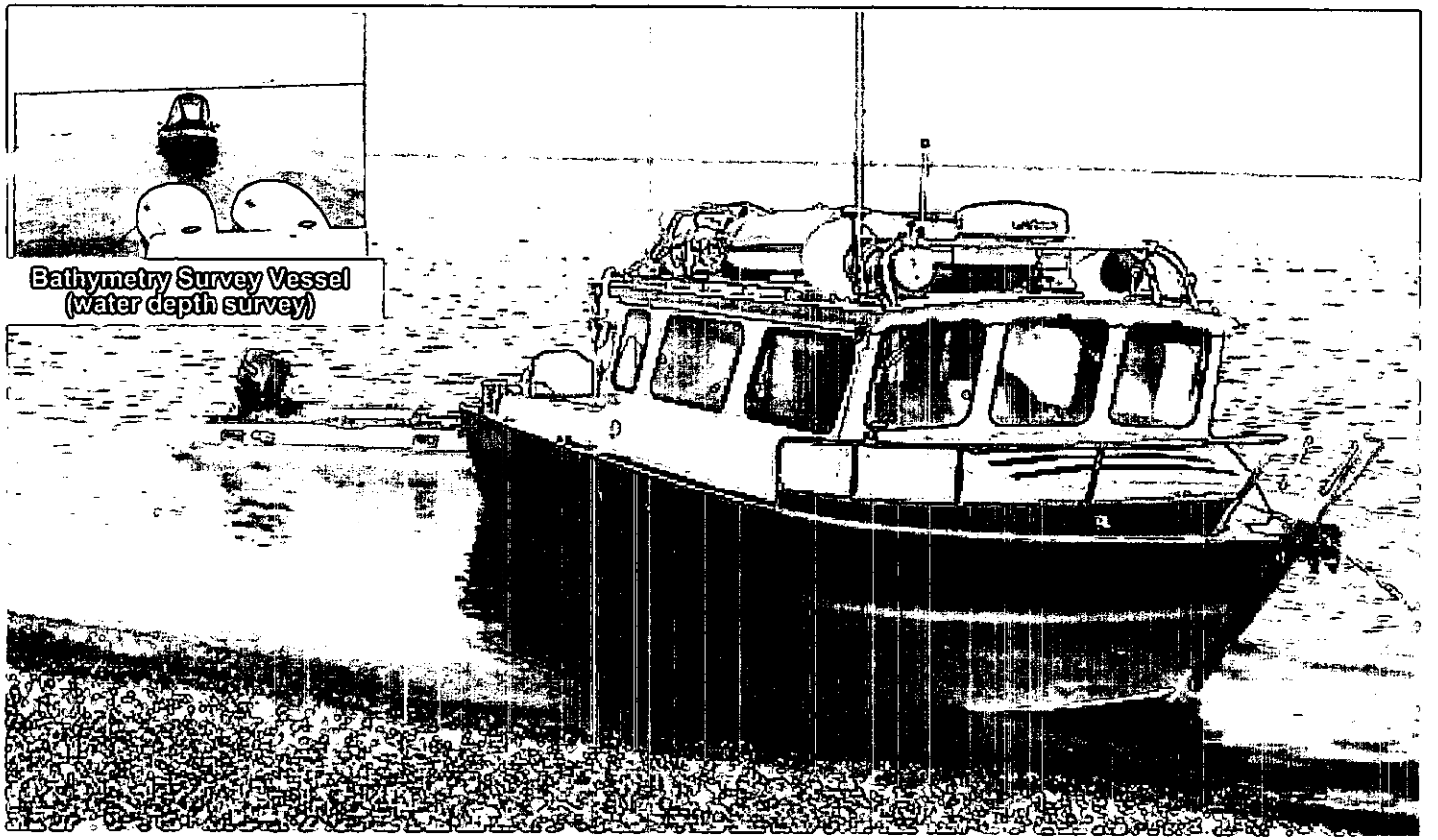
Point Thomson Project – Bathymetry Survey

POINT THOMSON PROJECT



- Water depth survey completed Sep 2008 for ice road
- 32 foot vessel with three person crew
- Conventional depth finder to map water depths
- Survey near shoreline, targeting 3 to 5 foot water depths

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1984

Point Thomson Project – Current Status

POINT THOMSON PROJECT

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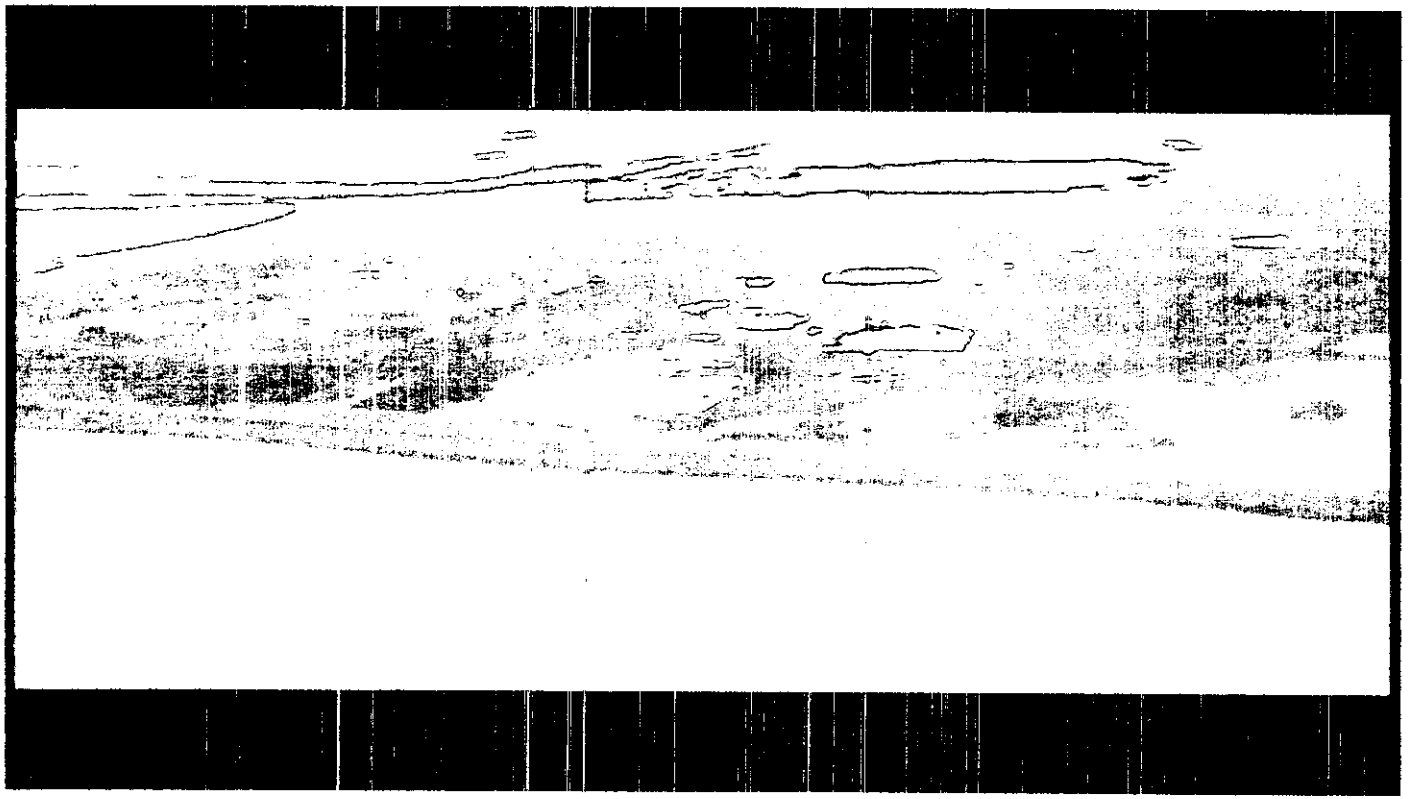
Point Thomson Project – Current Status

POINT THOMSON PROJECT



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1986

Point Thomson Project - Contributing Companies

POINT THOMSON PROJECT

Thanks to the many Alaska companies and hundreds of employees working on Point Thomson.

Air Logistics of Alaska, Inc.

Alaska Clean Seas

Alaska Industrial, LLC

Atigun, Incorporated

Aurora Automotive, Welding and Fabrication

F Robert Bell & Associates

Brooks Range Supply, Inc./ Colville, Incorporated

Cameron

Carlile Transportation Systems

Cellar Tech

Chiniak Environmental Consulting

Crowley Alaska, Inc.

Delta Leasing LLC

Doyon Universal Services, LLC

Duane Miller & Assoc.

ENTRIX Environmental Consultants, Inc.

Epoch Well Services, Inc.

ERA Helicopters, Inc.

Fairweather E&P

Fairweather, Inc.

W.W. Grainger, Inc.

Halliburton

Hydril Pressure Control a GE Oil & Gas business

Lewellen Arctic Research, Inc.

Marsh Creek, LLC

M-I SWACO

MRO Sales, Inc.

Nabors Alaska Drilling, Inc.

National Oilwell Varco

Northland Wood Products, Inc.

Quadco, Inc.

SLR

Schlumberger

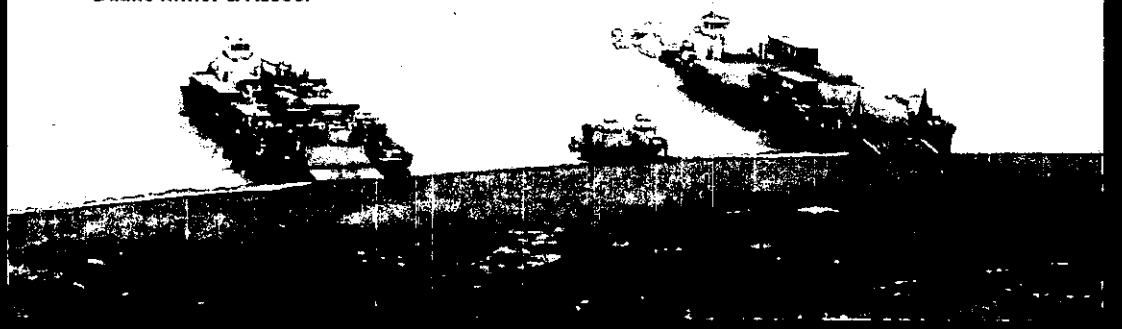
TerraSond Limited

Udelhoven Oilfield System Services

Frontier Alaska

POINT THOMSON PROJECT

Commitment to Produce



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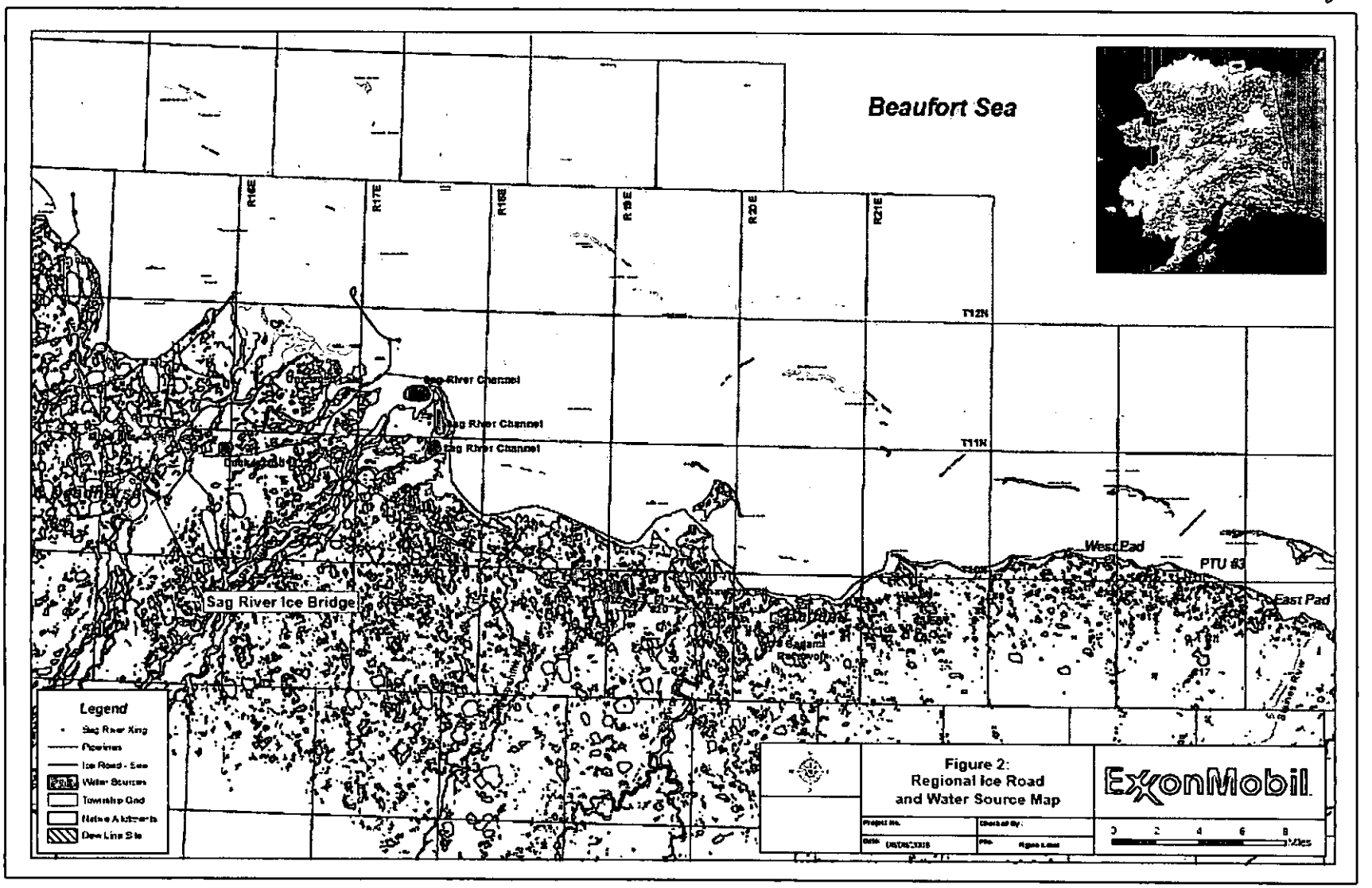
1987

Point Thomson Project – 50 mile Sea Ice Road

POINT THOMSON PROJECT



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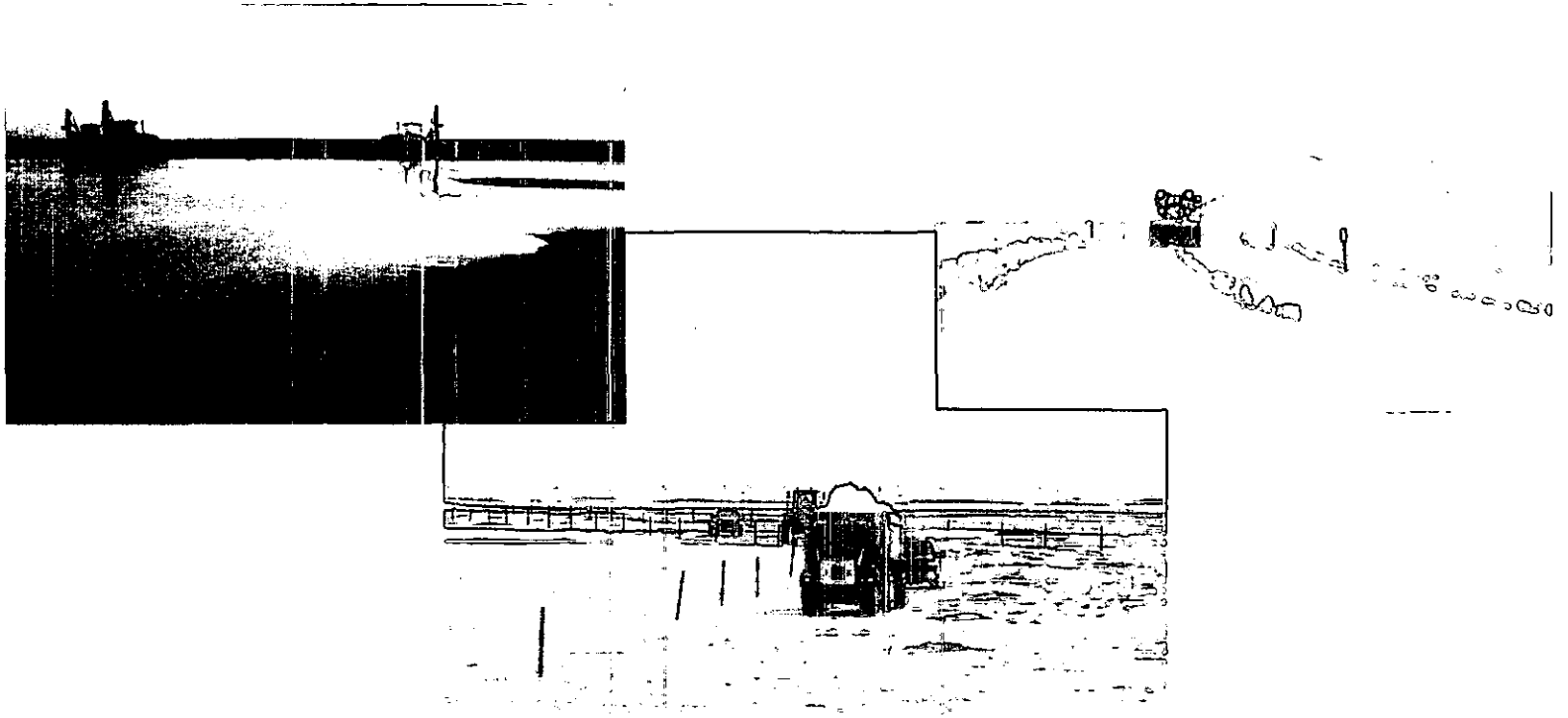
Point Thomson Project – Sea Ice Road & Runway

POINT THOMSON PROJECT



- Construction of 50 mile ice road will commence by Dec 2008 (depends on weather)
- One mile ice runway to support large aircraft (including Hercules)
- Ice road will requires >50 tons of equipment to build
- Ice road built on frozen ocean, thickness increased with water and ice
- Mobilize drilling rig February 2009
- Ice road will support other Alaska North Slope operations

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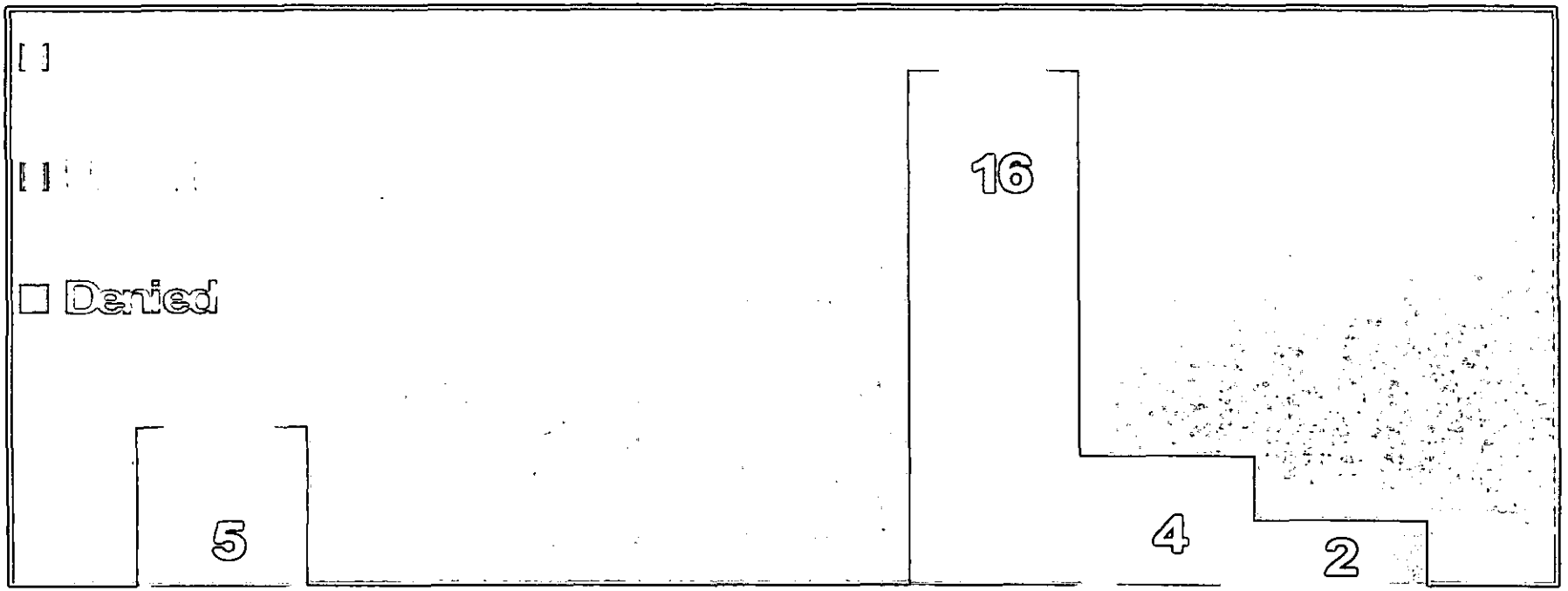
Point Thomson Project – Permits

POINT THOMSON PROJECT



- 22 permits required for ice road and drilling
- 16 permits received or being processed
  - Working with state, federal, and local agencies
- 6 permits denied/uncertain - critical for drilling and ice road
  - Ice Road : DNR – Land Use, Temporary Water Use
  - Drilling : DNR – Plan of Operations, Consistency Review, Geophysical; AOGCC Drilling

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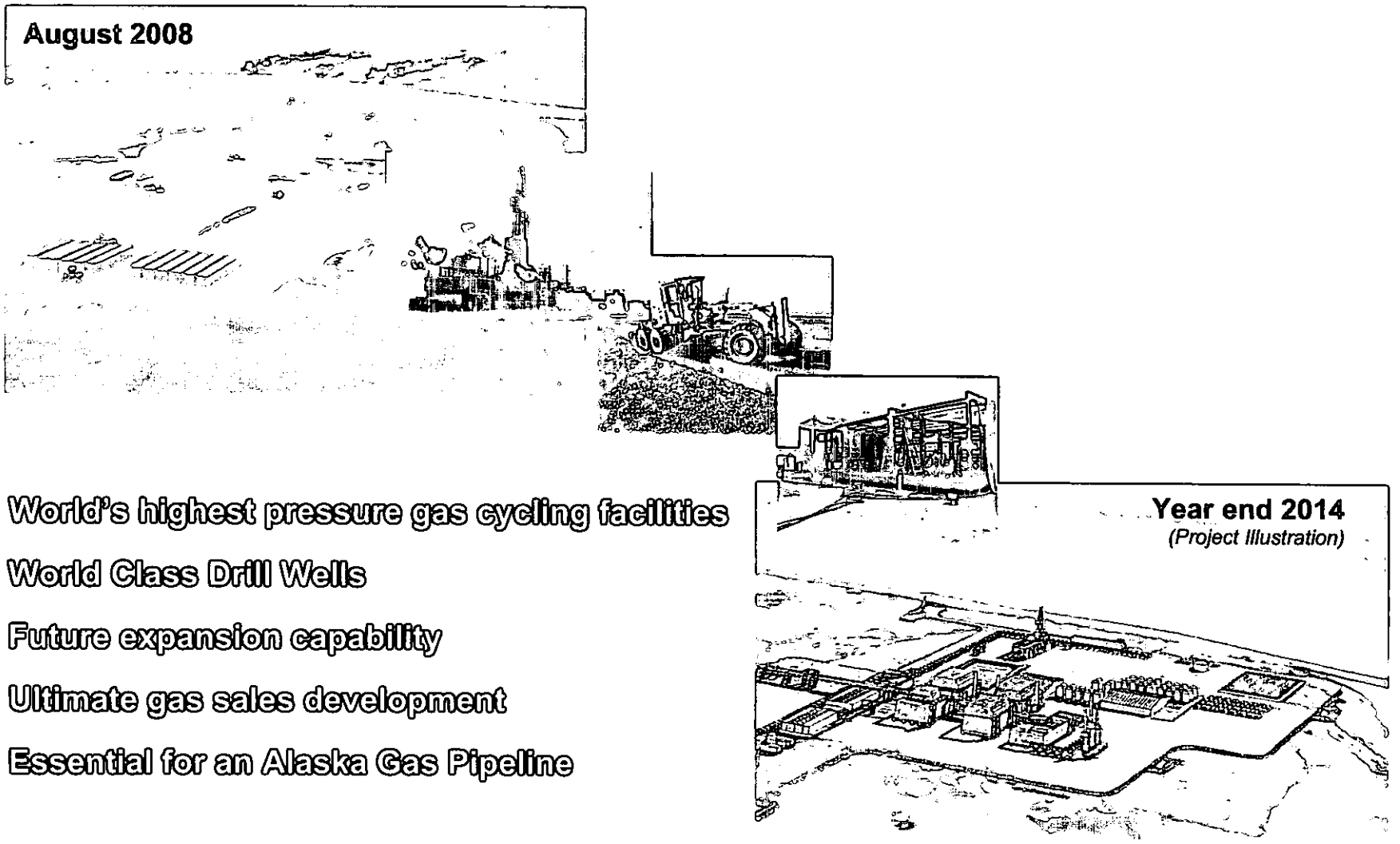
Point Thomson Project – Drilling, Developing, Producing

POINT THOMSON PROJECT



- World's highest pressure gas cycling facilities
- World Class Drill Wells
- Future expansion capability
- Ultimate gas sales development
- Essential for an Alaska Gas Pipeline

ExxonMobil

1991

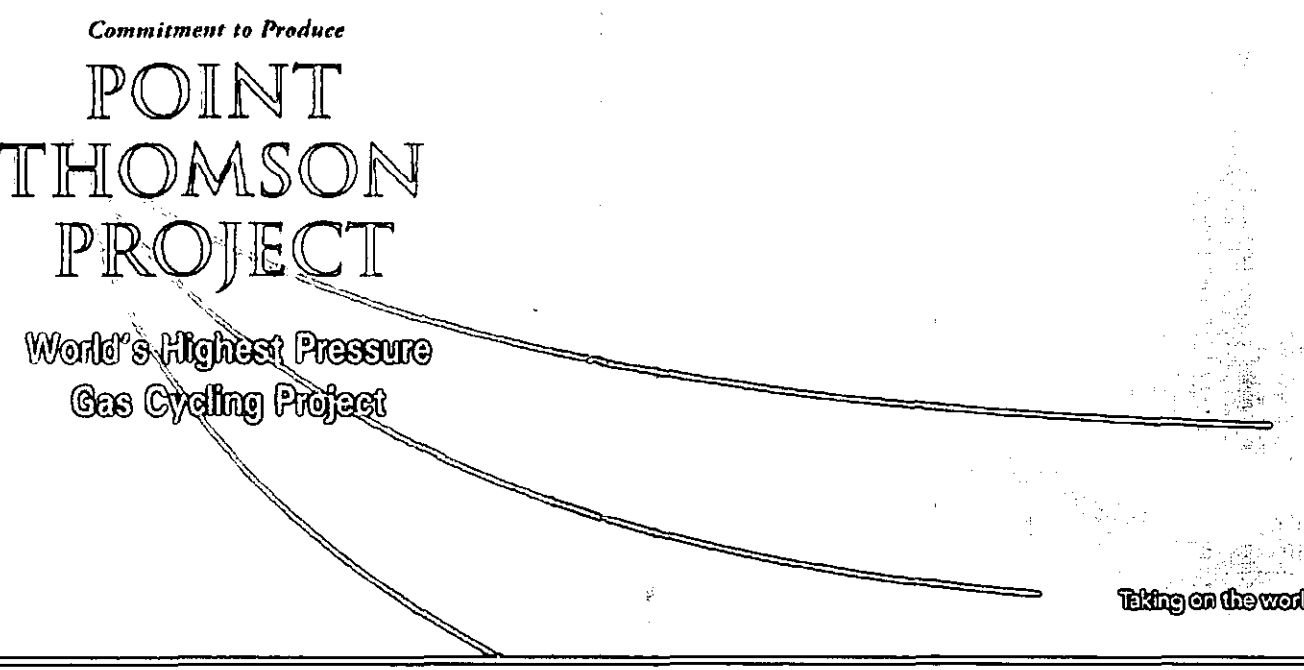
Point Thomson Project – World Class Development

POINT THOMSON PROJECT

Commitment to Produce

POINT THOMSON PROJECT

World's Highest Pressure Gas Cycling Project



Challenges and Risks

- 10,000 psi injection pressures
  - Over twice as high as Prudhoe Bay
  - 3,000 psi separator pressure
- Extended reach, abnormal pressure drilling
  - World class combination of mud weight and departure

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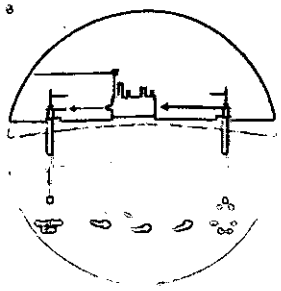
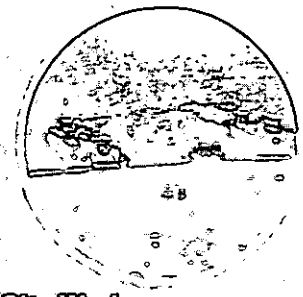
Taking on the world's toughest energy challenges®

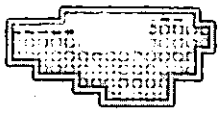
ExxonMobil



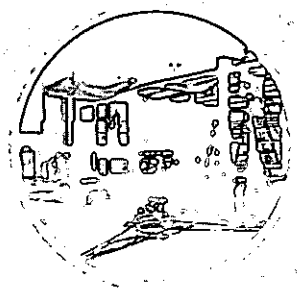
Produce Condensate by Cycling Gas



Site Work Underway



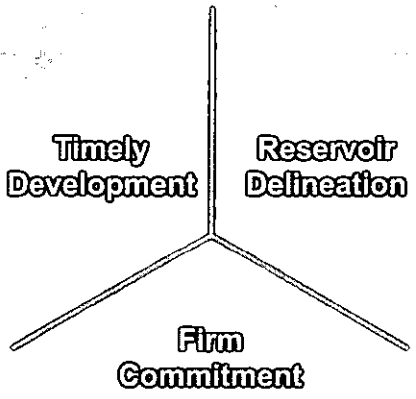
Point Thomson Unit



Drill Rig Upgrades

Key Goals

- Bring PTU into Production
- Prudently Manages Risk- Reservoir and Technology
- Future Expandability
- Positions PTU for Gas Sales
- Greater Ultimate Recovery



ges and Risks

ighest pressure gas cycling project

0 psi injection pressures

twice as high as Prudhoe Bay

eparator pressure

reach, abnormal pressure drilling

d class combination of mud weight departure

eservoir rock quality

ermafrost thickness

s project in a remote environment

Phased Approach

$1.3 Billion Projected Investment by Owners

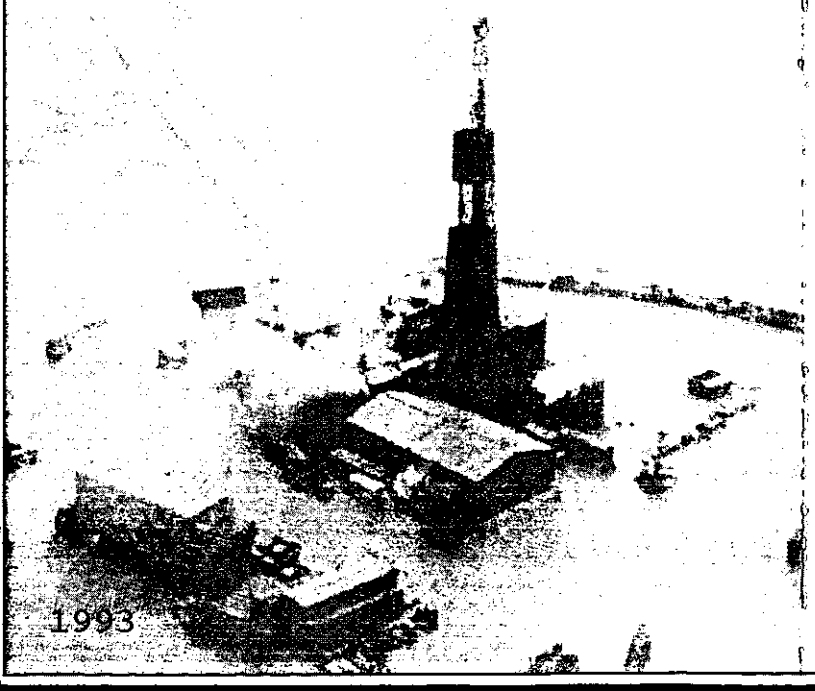
- Owners Support Assured by Senior Corporate Executives
- Already Secured Drilling Rig and Long Lead Materials
- Scheduled Milestones for State to Monitor Progress
- Agreed to Unit Termination if Milestones Not Met

Point Thomson

1992

POINT THOMSON PROJECT

Commitment to Produce



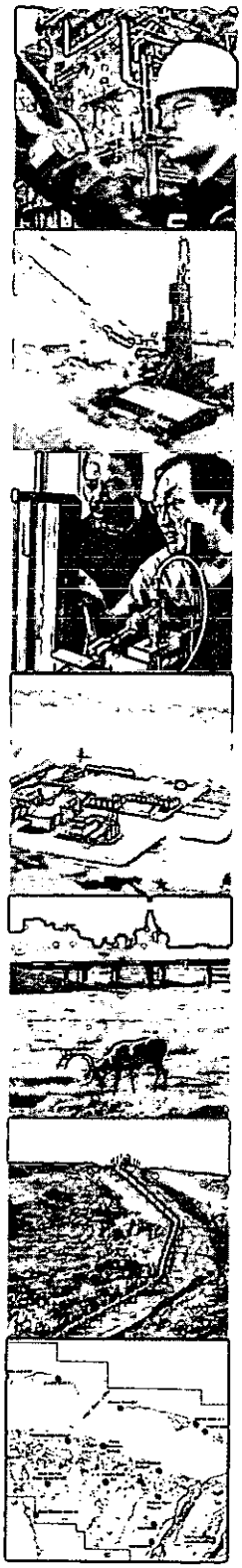
1993

POINT THOMSON PROJECT

Exxon

Taking on the world's toughest energy

Plan of Development



Provides for Production
- Commence Engineering 2008
- Commence Drilling Program Winter '08-'09
- Provides Jobs to Over 200 People Next Winter
- 10,000 Barrels Condensate Per Day - 2014

Further Delineates Reservoirs
- Producer and Injector Wells
- Western Delineation Well
- Eastern Delineation Well
- 5th Delineation Well (East or West)

Prudently Manages Risks
- Phased Approach
- Reservoir Quality and Performance
- Drilling, Facilities, and Technology

Minimizes Environmental Impacts
- IPS Utilizes Existing Gravel Pad
- Offshore Drilling from Onshore Pad
- Utilization of Ice Roads

Conservation
- Cycling Enhances Resource Recovery

Expandability
- Cycling, Oil Production, and Major Gas Sales

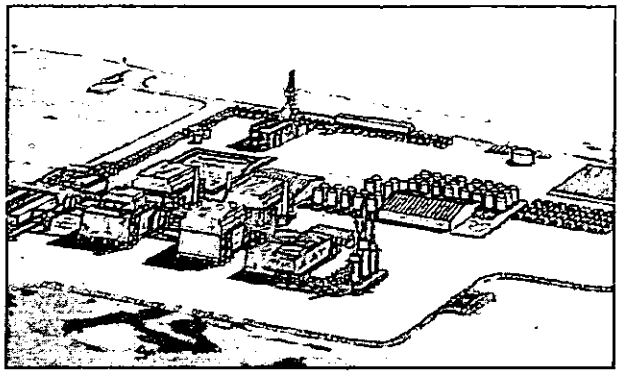
Over $800 Million Spent to Date
- 19 Wells Drilled
- Eight 3-D Seismic Surveys

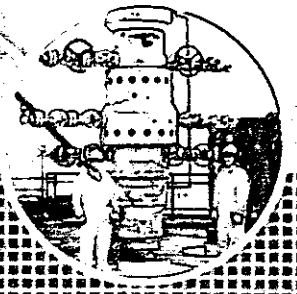
Mobil
challenges

1994

Development

Plan to Develop and Delineate

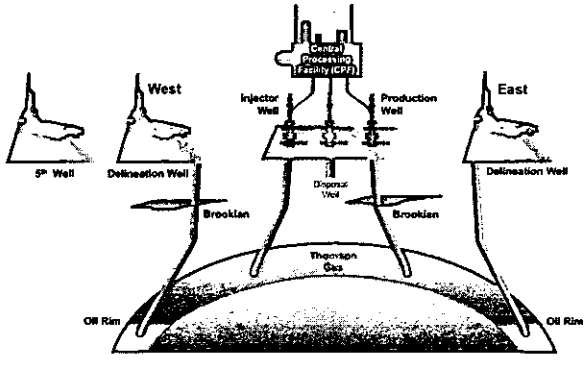


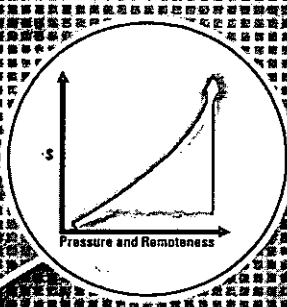


High Pressure Wells

Production

Plan to Produce Condensate





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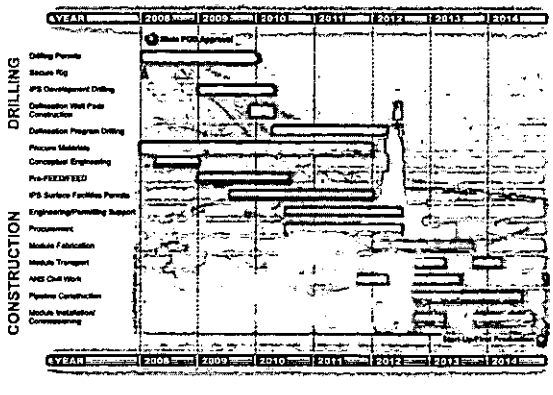

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