

**STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas**

Caelus Natural Resources Alaska, LLC

ADL 419949 Seawater Flowline: Private Non-Exclusive Easement Application

**AMENDED DIRECTOR'S DECISION
AS 38.05.850**

August 8, 2018

1. Requested Action

On June 6, 2018, Caelus Natural Resources Alaska, LLC (CNRA), operator of the Oooguruk Unit, applied to amend the Director's Decision (Decision), issued November 21, 2014, under AS 38.05.850 to expand the seawater tie-in pad. The Decision authorized construction and use of a 12-inch seawater flowline extending approximately 5.2 miles between the Oooguruk Tie-in Pad (OTP) in the Kuparuk River Unit (KRU) and a new seawater tie-in pad located along the west side of Kuparuk Oliktok Road.

The pad was constructed in 2015 and is 50 by 80 feet, comprising 0.15 acres. The proposed amendment will increase the fill volume of the pad by 1,300 cubic yards and area by 0.05 acres. The pad will have an increased working surface area of 50 by 85 feet, and the pad elevation will increase by four feet to match the forthcoming Oliktok Point road upgrade.

Surface activities for this expansion would occur on ConocoPhillips Alaska, Inc (CPAI) oil and gas lease ADL 025630. The proposed activities are contingent upon reasonable access to State of Alaska surface lands adjacent to CPAI's Kuparuk Oliktok Road. CNRA received a letter of non-objection from CPAI for surface activities proposed in the Nuna and Oooguruk Development Projects that occur on CPAI leases.

2. Scope of Decision

The Alaska Department of Natural Resources (DNR) has reviewed and evaluated the request for an easement with available land management information and DNR's responsibilities under AS 38.05.850.

Anticipated production at Nuna Drill Site 1 and ongoing production at Oooguruk Drill Site require reliable transport of seawater for reservoir injection. Therefore, the purpose of this decision is to enable development of the Oooguruk Unit and support production of CNRA's leases through construction of necessary infrastructure. The Division proposes to issue an amended easement to CNRA for the tie-in pad once the Entry Authorization requirements have been met. The term of the easement will be 35 years from the date the original Decision was signed by the DNR Division of Oil and Gas (Division) Director.

3. Authority

DNR's authority to issue an easement is set out in AS 38.05.850. This authority was delegated to the Division by the DNR Commissioner in a February 13, 2006, memorandum.

Under AS 38.05.850(e)(6)(h), a written best interest finding is unnecessary; however, AS 38.05.850(c) requires public notice if the Director determines, by evaluation of the nature and duration of the intended use, that the easement is functionally irrevocable. See Section 14: Public Review for more information.

The Division may revoke the EA or easement issued for this project upon violation of any of its terms, conditions, stipulations, nonpayment of fees, or upon failure to comply with any other applicable laws, statutes, and federal and state regulations, or if the area is no longer used for the intended purpose. A revocation may not become effective until 60 days after the Grantee has been notified in writing of the violation, during which time the Grantee has an opportunity to cure any such violation.

4. Entry Authorization

The Division issued EA ADL 419949 on January 23, 2015, authorizing entry and establishing a construction area around the described tie-in pad location.

When the amended construction activities are complete, CNRA will submit to the Division an as-built survey. Upon approval of the as-built, the construction easement area will be reduced in size and converted to an operational easement. The easement will encompass CNRA's improvements and will be restricted to the immediate vicinity around the facilities and pipelines constructed for this project. The required as-built will be used to determine the final location and dimensions of the amended easement.

The stipulations in Attachment B apply to the EA and final easement. The Division may delete construction-related stipulations in Attachment B from the easement, when issued.

5. Administrative Record

The administrative record for this easement consists of related case files CNRA LONS 11-005 and 05-009 and easement case file ADL 419949. Additionally, the following case files are related to projects in support of the Oooguruk Unit.

- CNRA private exclusive easement case file ADL 419004 includes OTP
- CNRA private non-exclusive easement case file ADL 417497 includes Oooguruk Drill Site flowlines
- CPAI oil and gas lease case files ADL 025531, 025631, 025630 include the proposed path of the flowline
- CNRA private exclusive easement case files ADL 419883 and 419266 include the Nuna pad and wellbore areas
- CNRA private non-exclusive easement case files ADL 491884 and 419885 include Nuna

- roads and pipelines
- CNRA LAS 25343 DMLW ice road/pad authorization

6. Location

Geographic: The proposed easement for the Nuna and Oooguruk Development Projects is located within the KRU on the North Slope of Alaska. The proposed seawater flowline runs approximately east-west between OTP and Kuparuk Oliktok Road. The pad is located along the west side of Kuparuk Oliktok Road, approximately two miles north of Central Processing Facility 3 in KRU.

Borough: North Slope Borough

Regional/Village Corporation: Arctic Slope Regional Corporation / Kuukpik Village Corporation.

U.S.G.S. Map: Harrison Bay B-1 and Beechey Point B-5.

Legal Description(s):

Umiat Meridian

Sections: 1, 11 and 12, Township 12 N, Range 8 E

Sections: 3, 4, 5, 6 and 7, Township 12 N, Range 9 E

7. Title

A title report was requested on October 1, 2013, for the following parcels:

Umiat Meridian

S1/2 S1/2, sec. 1; NE1/4 NE1/4, sec. 11; N1/2 N1/2, sec. 12; T12N, R8E

S1/2, sec. 3, 4, and 5; S1/2 S1/2, sec. 6; N1/2 N1/2, sec. 7; NW1/4 NW1/4, sec. 8; T12N, R9E

Acquisition: The State received title to the project area under GS-1312 and GS-1297 (PATENT # 50-74-0093) on March 27, 1974.

Conflicts and Pending Interests: The requested easement amendment is located within the KRU on an active oil and gas lease issued to CPAI, ADL number 025630. CNRA has received a letter of non-objection from CPAI for activities in the proposed easement area.

The proposed tie-in pad is located entirely on state-owned lands. No native allotments are within the easement area.

8. Access

CNRA shall coordinate operation and maintenance activities for facilities within KRU and the pending Nikaitchuq Oil Pipeline easement ADL 417493. CNRA shall not unreasonably or

unnecessarily interfere with access or operations by the KRU operator to KRU facilities.

9. Planning and Classification

There is no DNR land use plan for this area. The lands encompassed by this application are classified as Resource Management under Classification 618 and are subject to ADL 50666, North Slope Area Special Use Lands. This designation requires that, in addition to permitting requirements under 11 AAC 96.010, permits or authorizations are required for geophysical activity, other exploration activity, construction activity, and transportation activity, except along established roads. This requirement does not prohibit the development of lands within the Umiat Meridian or the development of oil and gas leases in the project area. Issuance of the easement is allowed under this classification.

10. Traditional Use Finding

This easement is located on state lands within an organized borough (North Slope Borough), therefore a traditional use finding under AS 38.05.850 is not required.

11. Waterbodies

The proposed flowline route is in the vicinity of the Colville River Delta, on the south side of Harrison Bay, and intersects two streams. These streams do not appear on the Alaska Department of Fish and Game Anadromous Water Catalog. They contain neither resident nor anadromous fish and are not considered overwintering habitats as they freeze to the bottom by late winter. No in-water work will be required.

12. Survey and Usage Fees

Survey: The Permittee shall submit an as-built survey acceptable to the standards of the Division prior to the expiration of the Entry Authorization. The as-built survey will include the flowline and pad constructed in the KRU and surface facilities over CPAI leasehold interests. Survey instructions are to be obtained from the DNR Survey Section.

Usage Fees: Annual usage fees for the project are outlined in “Attachment B” Standard Stipulation number 22 under 11 AAC 05.010. Fees associated with the easement may be periodically adjusted to account for unit contraction/expansion or updates to the fee schedule.

13. Agency Comments

The project was circulated for Agency review from June 14 to 28, 2018. No comments were received.

14. Public Review

Public notice and solicitation for comments for the Nuna Development Seawater Flowline easement amendment appeared in the Anchorage Daily News on June 27, 2018, and the Arctic

Sounder on July 5, 2018. The public notice was posted on the State of Alaska's Online Public Notice and Division of Oil and Gas websites on June 25, 2018, with a comment deadline of July 25, 2018. No public comments were submitted.

15. Environmental Risk

The use of state lands for the project area poses an acceptable level of environmental risk. Please refer to the Division's Decision dated March 1, 2013, for LO/NS 11-005 in Section E: Environmental Costs and Benefits.

16. Spills

Temporary fuel tanks may be staged at OTP during construction activities. The standard fuel containment procedures required by the stipulations and North Slope Mitigation Measures will minimize environmental risk during this time. For more information on spill prevention, please refer to the Division's Decision dated March 1, 2013, for LO/NS 11-005 in Section I.(2)(a) Other Relevant Factors to Protect the Public Interest.

17. Air Quality

No processing facilities are proposed for this project. Air quality impacts are expected to be minor and will not exceed ambient air quality standards.

18. Performance Guarantees and Insurance

Performance Guarantee: To ensure performance of the EA and easement conditions and to cover the cost of site cleanup, restoration and any associated costs during construction and operation of the easement, a Financial Assurances Agreement and insurance must be in place prior to construction.

If at any time CNRA expands the Nuna and Oooguruk Development Projects Scope to include other components, including but not limited to Nuna Drill Site 2 and accompanying road and pipeline improvements, then it will be required to provide an updated Dismantlement, Removal and Restoration (DR&R) estimate to account for the expanded scope of the project. The subsequent Performance Guarantee revisions will be made in concert with the mechanism identified in the Nuna Development DR&R Agreement, signed November 5, 2014.

Insurance: To protect the state from liability associated with facility construction under the Entry Authorizations, and use and maintenance of the facilities under the project easements, CNRA shall provide and maintain a commercial general liability insurance policy, with the state as a named insured party. To correspond with the current amount of insurance required by DNR for similar cases, the insurance requirement for the Entry Authorizations and project easements must be for no less than \$1,000,000.00 (One Million Dollars) per occurrence and \$2,000,000.00 (Two Million Dollars) general aggregate. The insurance requirement may be adjusted periodically by the Division. The Entry Authorizations are conditioned upon CNRA providing proof of insurance prior to constructing and surveying the Nuna Development seawater flowline

on state land.

19. Economic Benefits

Article VIII, section 1 of the Alaska Constitution states, “It is the policy of the state to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.” Under AS 38.05.850, the Director shall, in granting a proposed easement, give preference to use of the land that will be of the greatest economic benefit to the state and the development of its resources. The proposed easement for the Nuna Development Seawater Flowline tie-in pad expansion is consistent with the cited constitutional provision and statute.

Alaska depends on revenues generated by oil and gas development for its economic well-being. The proposed easement will facilitate development of the state’s resources in an area that is largely industrial. There are no other directly competing uses that would provide greater economic benefit to the state and this development will not impact other resource development in the area.

20. Discussion and Finding

The Division finds that reasonable access across leases currently held by CPAI is necessary for the practicable development of the Plan’s proposed resource development activities. The requested private non-exclusive easement (ADL 419949) will be authorized under AS 38.05.850 through this Easement Decision document. The Division will issue the Entry Authorization and ultimately the private non-exclusive easement to CNRA, pursuant to AS 38.05.850. The term of this easement is valid until November 21, 2049.

CNRA must meet the requirements of the Entry Authorization before the easement will be granted. The Permittee is subject to the terms of this decision and the Stipulations of the Entry Authorization (Attachment B). During the term of the Entry Authorization, periodic inspections may be conducted at the discretion of the DNR to ensure permit compliance. The State of Alaska reserves the right to issue other compatible uses within the same area.

It is the decision of the Division of Oil and Gas that granting this easement provides the greatest foreseeable economic benefit to the state and the development of its resources.

 _____ 
Chantal Walsh Date
Director, Division of Oil and Gas

Appeal Provision

An eligible 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 Andrew Mack,

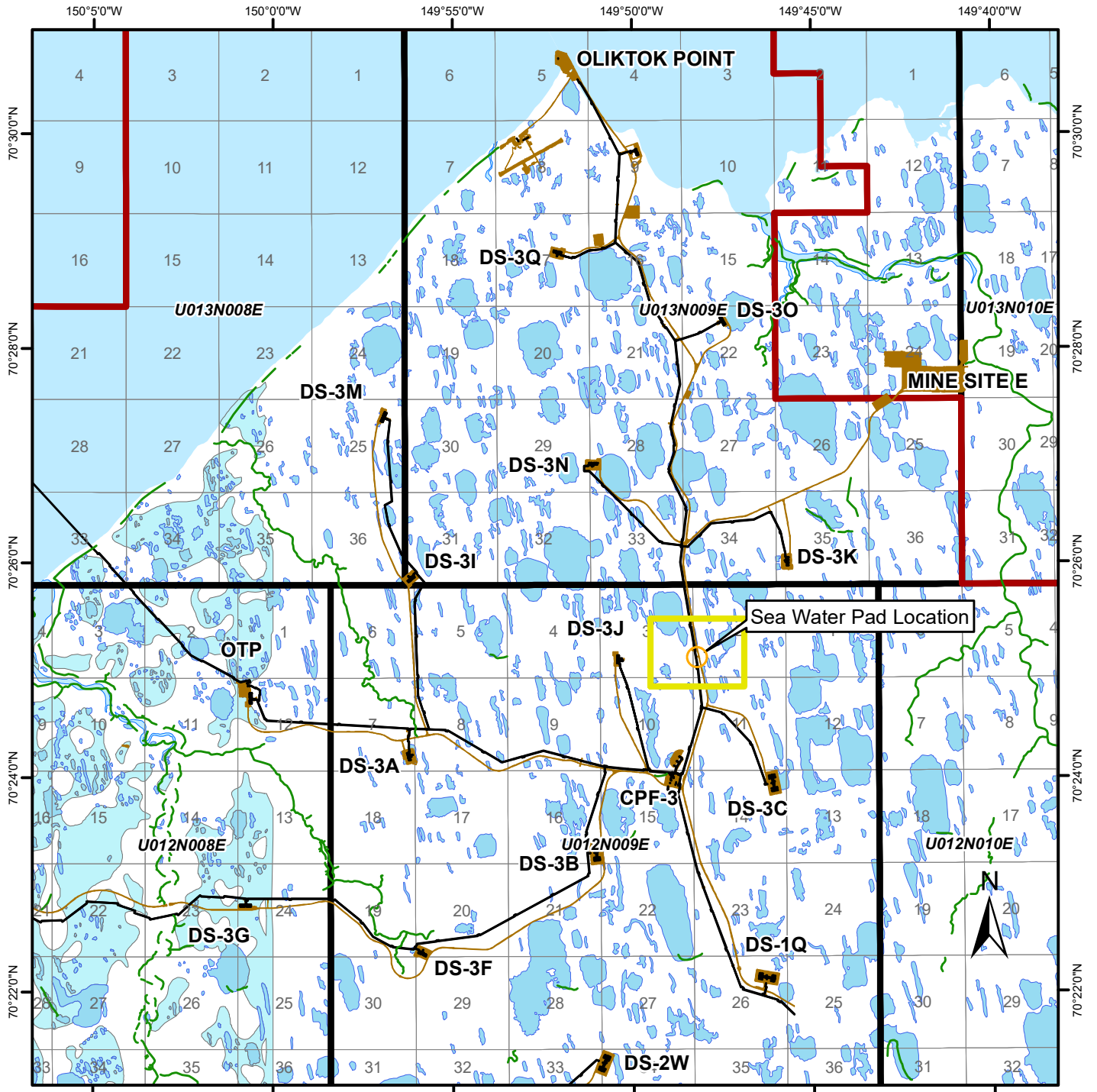
Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr.appeals@alaska.gov. If no appeal is filed by that date, this decision goes into effect as a final order and decision on the 31st day after 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.

Attachments:

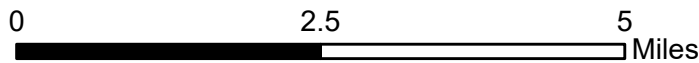
Attachment A: CNRA Easement Area Maps and Figures.

Attachment B: Please refer to the Stipulations from the Decision dated November 21, 2014.

Attachment A



Alaska State Plane Zone 4 NAD 1983 (Feet)



Legend

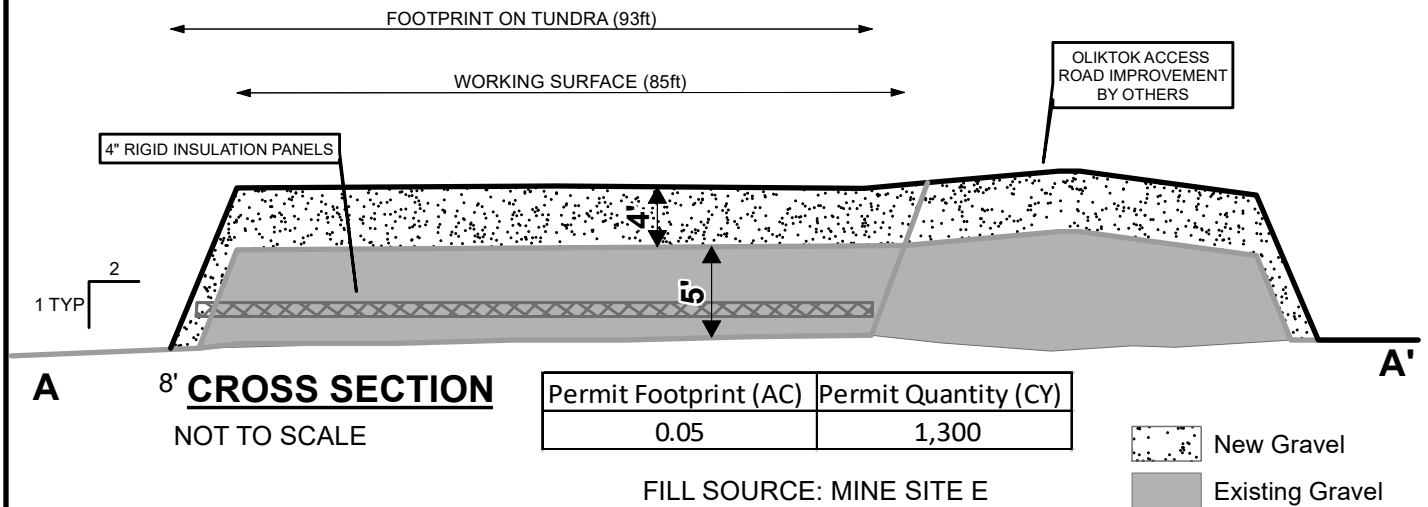
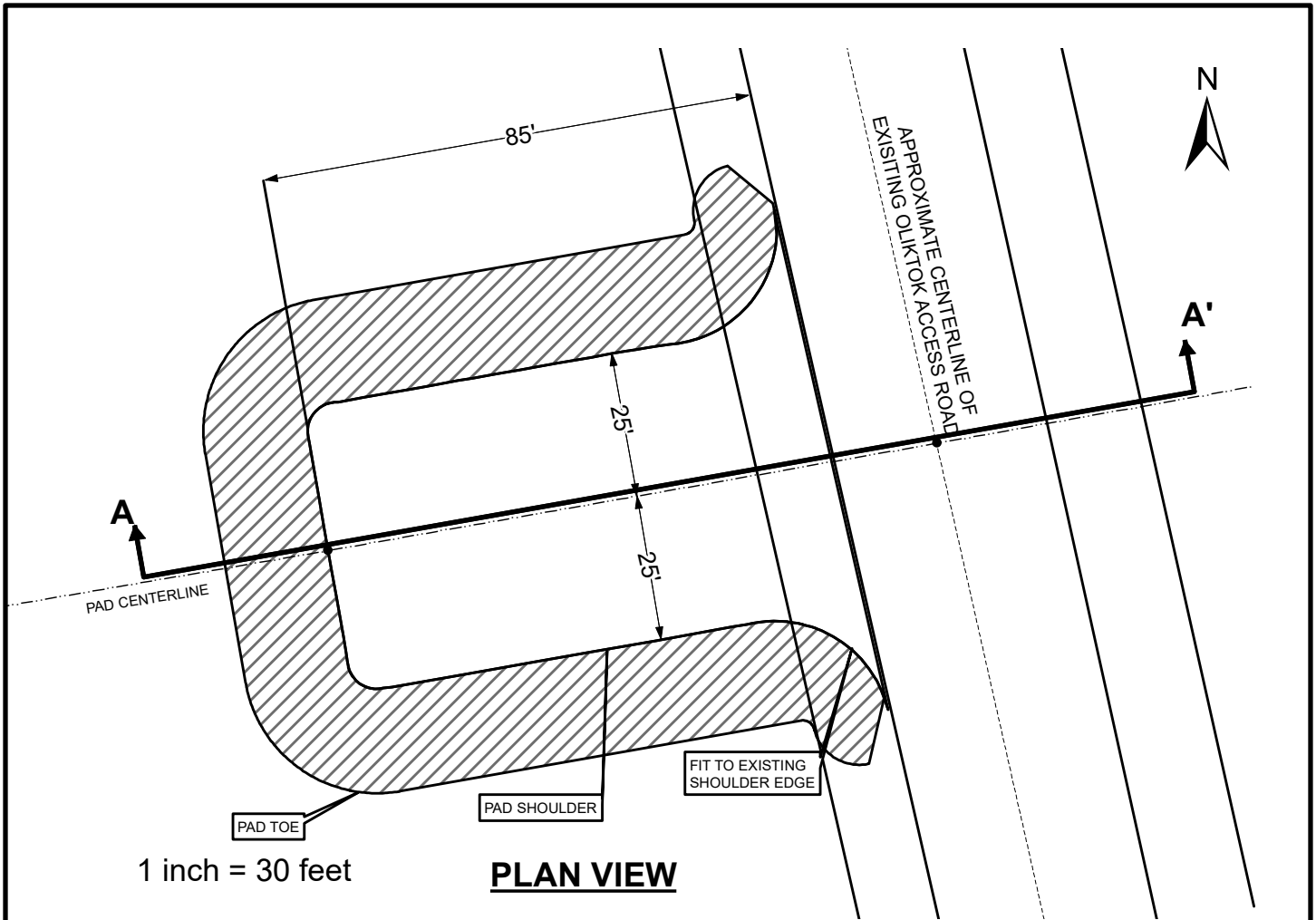
Adjacent Properties Owners:
State of Alaska, DNR

- Potential Polar Bear Denning Habitat
- Existing Pipeline
- Gravel Roads and Pads
- Oil & Gas Units

Kuparuk River Unit
ODS Sea Water Tie-In Pad Activity
Vicinity Map



Caelus Natural Resources Alaska, LLC
 Proposed Activity: ADL 419949, Fill
 Sec. 2, T12N, R9E, Umiat Meridian
 Latitude: 70° 25' 6.4" N, Longitude: 149° 48' 23.5" W, NAD 1983
 Sheet 1 of 2 Date: 5/23/2018



ODS Sea Water Tie-In Pad Activity



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 Proposed Activity: ADL 419949, Fill
 Sec. 2, T12N, R9E, Umiat Meridian
 Latitude: 70° 25' 6.4" N, Longitude: 149° 48' 23.5" W, NAD 1983
 Sheet 2 of 2 Date: 5/23/2018