



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL AND GAS

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April 25, 2016

Stephen Brashear
Environmental Coordinator
ConocoPhillips Alaska, Inc.
PO Box 100360
Anchorage, AK 99510

RE: LONS 16-002, ConocoPhillips Alaska, Inc., Kuparuk River Unit, Drilling Annex Pad, Unit Plan of Operations Decision.

Dear Mr. Brashear:

I. INTRODUCTION

On October 28, 2015 ConocoPhillips Alaska, Inc. (Applicant) submitted a request to the Division of Oil and Gas (Division) for approval of a Unit Plan of Operations (Plan) to carry out construction of the Drilling Annex Pad (DAP) in the Kuparuk River Unit (KRU). The Drilling Annex Pad is approximately less than a quarter mile southwest of Drill Site 2-L. Approval of this Plan, along with approvals from other state and federal agencies (Agencies), is necessary for ConocoPhillips Alaska, Inc. (CPAI) to carry out construction of the Drilling Annex Pad. Any further development is subject to further review and approval by the Department of Natural Resources (DNR).

II. SCOPE OF DECISION

The DNR Commissioner has delegated authority for approval of Unit Plan of Operations activities to the Division under Department Order: 003 in accordance with Alaska Statute (AS) 38.05 and 11 Alaska Administrative Code (AAC) 83.346. As set forth below, the Division has evaluated the proposed Plan to determine if sufficient information as required by 11 AAC 83.346 is provided. The Division has also considered that criteria set forth in 11 AAC 83.303. In approving a Plan, the Division may require amendments that it determines are necessary to protect the State's interests (11 AAC 83.346(e)).

The proposed Kuparuk Drilling Annex Pad will be located in the KRU southwest of Drill Site 2L (DS-2L). The project includes construction of a new gravel pad approximately 16.5 acres in size by placing approximately 129,500 cubic yards of gravel fill material onto the tundra to construct a new pad and access road in the KRU. A new pad is proposed to support continued development of the Kuparuk Area including Sharktooth/DS-2S. The new pad will accommodate continued development activities by providing space for three rig camps, vehicle parking and bullrails, a

tanker truck loading area, storage tanks, equipment staging, and a safety station. Existing infrastructure would be used to support the project for access, egress, and power supply. No new drill sites, cross-country pipelines, or overhead power lines are proposed as part of this project.

Agency authorizations for this project include the following:

- US Army Corps of Engineers - CWA Section 404
- US Fish & Wildlife Service - Endangered Species Act (ESA) Section 7 consultation
- ADEC - CWA Section 401 Certification
- ADEC - APDES Kuparuk Storm Water Pollution Prevention Plan (SWPPP) Amendment
- ADEC - ODPCP Plan Amendment
- ADNR Division of Oil & Gas - Lease Operations
- ADNR Division of Land, Mining, and Water - Cultural Site Clearance (SHPO)
- ADNR Division of Land, Mining, and Water – Temporary Water Use Authorization
- ADNR Division of Land, Mining, and Water - Material Sale Contract
- North Slope Borough - Development Permit
- North Slope Borough - Cultural Clearance (IHLC)

III. LAND STATUS

The KRU is comprised of state lands.

- A. Division's Leased Lands: This section refers to Division managed oil and gas leases regardless of ownership of overlying surface lands.

Identified Oil and Gas Lease: 380052

Oil and Gas Mineral Estate Lessee(s): ConocoPhillips Alaska, Inc.

Surface Ownership and Access Agreement: State of Alaska

Special Use Lands: ADL 50666 – North Slope Special Use Area

Jointly Managed Lands: None

Other Considerations: None

Project Components	Meridian, Township, Range, & Section(s)	GPS Coordinates
Gravel Placement, Facilities, equipment areas, storage areas, tanks	Umiat, 10N, R7E, Section 22	70.210739 / 150.327331

IV. PROPOSED OPERATIONS

The Plan describes the proposed operations in full detail. Set forth below is a summary of the key details.

A. Sequence and Schedule of Events

The table below displays CPAI's proposed schedule for the construction of DAP. All dates are approximate and may be altered by weather or logistic requirements. The dates will also change because some of them precede this decision. The schedule nonetheless provides the Division with an overall idea of the sequence and schedule of events. The Division reviewed this schedule with the expectation that dates early in the sequence would move back, but that later dates for finishing the project would remain the same.

Project Milestone #	Project Milestone	Proposed Start Date	Proposed End Date
1.	Gravel placed pad built to grade	4/1/2016	3/31/2017

B. Well Sites

N/A

C. Buildings

Up to three rig camps and a safety station will be placed on the pad. The rig camps are each estimated to be approximately 250 feet long by 100 feet wide. The safety station is estimated to be approximately 70 feet long by 20 feet wide.

D. Fuel and Hazardous Substances

A tanker truck loading area and associated fuel tank will be placed on the pad. In addition, two bulk storage tanks will be placed on the pad. The tanks will contain diesel fuel.

E. Solid Waste Sites

Sanitary wastes that may be generated will be hauled to the Kuparuk wastewater treatment system. Food waste will be incinerated at Kuparuk Operations Center (KOC) and non-burnable waste will be recycled or trucked to the NSB landfill at Deadhorse.

F. Water Supplies

Camp water supply will be trucked from KOC. Fresh water required for dust control and gravel compaction during construction will come from Lake K201, K203, K214, or another permitted source.

G. Utilities

Power will be supplied to the Drilling Annex Pad from existing infrastructure, and the utility cables will be buried in-pad.

H. Material Sites

Construction of the new pad will require approximately 129,500 cubic yards of gravel impacting approximately 16.5 acres of tundra. Gravel will be hauled from Mine Site C or another permitted source using existing infrastructure.

I. Roads

The total footprint includes an access road approximately 500 feet long by 35 feet wide.

J. Airstrips
N/A

K. All Other Facilities and Equipment
Parking areas and associated bull rails.

L. Rehabilitation Plan
Restoration and rehabilitation activities will occur upon abandonment.

M. Operating Procedures Designed to Minimize Adverse Effects
In approving a Plan, DNR may require amendments necessary to protect the State's interest (11 AAC 83.346). The Division has determined that to protect the State's interest, it is necessary to incorporate the North Slope Mitigation Measures. CPAI addressed these mitigation measures in the application process, but it is necessary to amend the Plan to make clear that the Plan incorporates the North Slope Mitigation Measures.

All plan applicants must complete a mitigation measure analysis demonstrating that each mitigation measure is satisfied or inapplicable to the proposed Plan, or that the applicant is seeking an exception. The North Slope Mitigation Measures allow for the Division to grant an exception if the applicant shows that compliance with the measure is not practicable or that the applicant will undertake an equal or better alternative to satisfy the intent of the mitigation measure. CPAI completed the mitigation measure analysis for the North Slope areawide and no exceptions were requested.

CPAI has a Wildlife Avoidance Interaction Plan designed to prevent or minimize adverse effects on other natural resources.

V. CONSIDERATION OF UNIT PLAN OF OPERATIONS REQUIREMENTS UNDER 11 AAC 83.346(c-d) and 11 AAC 83.390

A. Full Payment of Damages to the Surface Owner 11 AAC 83.346(c)
The State owns the surface and full payment of damages to the State are accomplished through a bond posted by the applicant discussed in subsection C below.

B. Plan Sufficiency 11 AAC 83.346(d)
A proposed plan must include statements, maps, or drawings setting forth

- (1) the sequence and schedule of operations;
- (2) the projected use requirements directly associated with the proposed operations;
- (3) plans for rehabilitation;
- (4) a description of operating procedures to prevent or minimize adverse effects on natural resources and concurrent uses of the area (11 AAC 83.346(d)).

The information in section IV. Proposed Operations, above, and additional information contained in CPAI's proposed Plan satisfy the requirements for a plan under 11 AAC 83.346(d) and thus provide the Division with sufficient information available at this time to determine the surface use requirements and impacts directly associated with the proposed project.

C. Oil and Gas Lease Bond 11 AAC 83.390

The State owns all the surface land where the proposed Plan activities will be located. The State owns all the mineral estate the Plan proposes to support. For the State, a lessee provides for payment of damages by posting a bond, and remains liable for full damages under the lease. CPAI has a Statewide Oil and Gas Bond in the amount of \$500,000 and continuing liability under the lease.

VI. CONSIDERATION 11 AAC 83.303 CRITERIA

A. Protection of Public Interest

The Division has considered the public interest, considering statutory provisions that provide for conserving natural resources through unitized development (11 AAC 83.303(a); AS 38.05.180(p)). The legislature has declared the public's interest in oil and gas development as an interest in developing oil and gas resources to maximize economic and physical recovery, maximize competition, and maximize use of Alaska's human resources (AS 38.05.180(a)(1)).

This Plan addresses the means for carrying out the construction of the DAP which, as determined by the 2015 Kuparuk River Plan of Development (POD) approval, is necessary for maximizing recovery of the oil resources.

The proposed Plan provides for use of Alaska's human resources by pledging to provide local employment and contracting opportunities and to encourage its contractors to do the same under the North Slope Mitigation Measure Analysis A.7.a.

B. Conservation of Natural Resources

The Division has considered whether the Plan promotes conservation of all natural resources, including all or part of an oil or gas Plan, field, or area (11 AAC 83.303(a)(1)). Conservation, in this context, means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources (11 AAC 83.395(1)). Development within a unit is intended to provide more efficient development than on the individual leases that make up the unit, and this Plan considers the development of the Unit, not single leases. Efficient development creates less impact on the land and promotes maximum use of all natural resources in the area, consistent with the public interest.

There are a number of ways in which the Plan seeks to minimize adverse impacts on natural resources. This Plan incorporates the mitigation measures set forth in the North Slope Areawide Oil and Gas Lease Sale Final Finding North Slope Areawide Mitigation Measures. These mitigation measures include measures to protect habitat, fish, and wildlife, protect subsistence resources, and limit the impact from fuel and hazardous substances at North Slope Areawide sections 7:A.2-4. The Plan also includes operating procedures to prevent or minimize adverse effects, including effects on the environment, wildlife, and subsistence resources discussed in section IV.M of this decision.

C. Prevention of Economic and Physical Waste

The Division has considered whether the Plan promotes the prevention of economic and physical waste (11 AAC 83.303(a)(2)). Issues of economic and physical waste are carefully considered during Unitization and annually thereafter in the Kuparuk River POD approval. This Plan

conforms to the current 2015 Kuparuk River POD approval on file with the Division's Units Section.

D. Protection of All Parties of Interest, Including the State

The Division has considered whether the Plan provides for the protection of all parties of interest, including the State (11 AAC 83.303(a)(3)). The parties of interest to a unit plan are the unit operator and working interest owners. The State has an economic interest in the oil and gas resources because it receives royalties from production. Although no production is proposed at the Drilling Annex Pad, the pad will support production at other sites within the KRU. It is further in the State's best interest to encourage assessment of oil and gas resources, recognize the costs of exploring in varied geographic regions, and minimize the adverse impact of exploration, development, production, and transportation activity (AS 38.05.180(a)(2)).

Without approval of a Plan, CPAI cannot develop the Kuparuk reservoir, and the State cannot recover royalties from that development. The Plan thus protects the Unit Operators, working interest owners' and the State's interests in developing the resources.

E. Environmental Costs and Benefits

The Division has considered the environmental costs and benefits of unitized development outlined in this Plan and through the 2015 Kuparuk River POD approval, and annual updates, on file with the Units Section (11 AAC 83.303(b)(1)); this Plan conforms to the current Kuparuk River POD on file with the Division.

F. Geological and Engineering Characteristics of Hydrocarbons

DNR previously considered the geological and engineering characteristics of a potential hydrocarbon accumulation or reservoir when it approved the unit agreement (11 AAC 83.303(b)(2)); this Plan conforms to the current 2015 Kuparuk River POD approval on file with the Division's Units Section.

G. Prior Exploration Activities

The Division has considered prior exploration activities in the Plan area pursuant to 11 AAC 83.303(b)(3). The Kuparuk Drilling Annex Pad will be located within the KRU near DS-2L. The proposed pad would allow for continued development of oilfields within the KRU. There is increasing development activity in the vicinity of the proposed pad, including projects such as Sharktooth/DS-2S.

H. Plan of Development

The Division has considered the plans for development set forth in and approved by DNR in the POD (11 AAC 83.303(b)(4)). The current 2015 Kuparuk River POD approved on 7/30/2015 supports CPAI's operations identified in the proposed Plan.

I. Economic Costs and Benefits to the State

The Division has considered the economic costs and benefits to the State (11 AAC 83.303(b)(5)). Without approval of a plan, CPAI will be unable to proceed with developing the Kuparuk River Unit, which will cost the State the economic benefit of the royalties, as well as other economic benefits that flow from production.

J. Other Relevant Factors to Protect the Public Interest

The Division has considered other relevant factors necessary or advisable to protect the public interest (11 AAC 83.303(b)(6)). These other factors consist of the mitigation measures (section IV.M of this document) that will apply to this Plan; and the necessity to obtain other permits and approvals by different Agencies and landowners.

VII. CONSULTATION WITH OTHER GOVERNMENT ENTITIES

In reviewing the proposed Plan, the Division considered the fact that CPAI may require approvals from Agencies for other elements of its project. Although mentioned in the Plan and above, these aspects of the project are not operations being approved by this decision and the Division offers no opinion on whether an agency should or should not approve these activities.

In addition to considering the approvals required by Agencies as they relate to this decision, the Division provided an Agency review and comment opportunity for the activities proposed for authorization under this decision. The following government entities were notified on February 23, 2016 for comment on the Plan: U.S. Army Corps of Engineers; NSB; ADFG; ADEC; and DNR: State Pipeline Coordinator's Section (SPCS), DMLW, and the Division of Oil and Gas. The comment deadline was 4:30 pm Alaska time on March 8, 2016. Comments were received and the Division, Applicant, and commenting agency(ies) reconciled the comments without modifying the Plan; Agency comment(s) and Applicant's response(s) are summarized in Appendix B. The Plan was then publicly noticed.

VIII. PUBLIC NOTICE

Public notice of the Plan and opportunity to comment, per AS 38.05.035, was published in the Alaska Dispatch News on March 22, 2016 and Arctic Sounder on March 24, 2016 with a deadline for comments of April 20, 2016 at 4:30 pm Alaska time. Additionally, a copy of the notice was posted on DNR's web site and faxes of the public notice were sent to the Barrow, Nuiqsut, and Prudhoe Bay post office(s). No comments were received.

IX. CONDITIONS OF APPROVAL

Having considered the proposed project, the Division approves the Plan as amended and modified by this decision and subject to the below conditions of approval.

To protect the State's interest, the Division finds that it is necessary to amend the Plan to incorporate the following Conditions of Approval:

- a) The applicant shall defend, indemnify and hold the State of Alaska harmless from and against any and all claims, damages, suits, losses, liabilities and expenses for 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 State lands authorized under this approval by the applicant, its contractors, subcontractors and their employees.
- b) The applicant shall inform and ensure compliance with any and all conditions of this approval by its employees, agents and contractors, including subcontractors at any level.
- c) Unless pre-authorized by a general permit, amendments and modifications to this approval require advance notice and must be approved in writing by the DNR.

- d) The Commissioner of the DNR may require that an authorized representative be on-site during any operations conducted under this approval. This stipulation is required to ensure that the Divisions of Oil and Gas and Mining, Land and Water meet their statutory responsibilities for monitoring activities taking place on State-owned lands.
- e) A status report for the activities conducted under this approval must be filed with this office on May 1 and November 1 each year, from the date this approval is issued and until a final completion report is filed with the Division. If a lessee requests an assignment, a status report must also be submitted during the assignment process. Failure to file in a timely manner may result in revocation of this approval.
 - a. Each status report shall include a statement describing and map(s) depicting all operations actually conducted on the leased area as of the date the report is prepared, which includes the location, design and completion status of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment installed.
 - b. Upon completion of operations, the applicant will submit a completion report which will include all information required of a status report described in (a) above as well as a statement indicating the date of operations completion, any noncompliance with the terms of this plan approval of which a reasonable lessee would have knowledge of, clean-up activities conducted, the method of debris disposal, and a narrative description of known incidents of surface damage.
- f) Notification. The applicant shall notify the DNR 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 Department of Environmental Conservation (DEC) oil spill report number is (800) 478-9300. DNR and DEC shall be supplied with all follow-up incident reports.
- g) A certified As-Built survey of the improvement shall be provided within one year of placement of the improvement. This As-Built must be submitted in both electronic and physical format.

To protect the State's interest, the Division finds that it is necessary to amend the Plan to incorporate the following Project Specific Stipulations:

N/A

X. FINDINGS AND DECISION

Having considered the proposed project and based on the foregoing discussion and consideration of issues and conditions of approval, the Division makes the following findings:

1. The Plan provides sufficient information, based on reasonably available data, for the Division to determine the surface use requirements and impacts directly associated with the proposed operations.
2. The Plan includes statements, maps, or drawings setting forth the sequence and schedule of operations, projected use requirements, description of operating procedures, and a plan of rehabilitation designed to prevent or minimize adverse effects.
3. To protect the State's interest and mitigate potential adverse social and environmental effects associated with the Plan, the Division finds it necessary to amend the Plan to incorporate the

mitigation measures set forth in the North Slope Areawide Oil and Gas Lease Sale Final Finding.

4. All oil and gas activities conducted under oil and gas leases are subject to numerous local, state and federal laws are regulations with which CPAI is expected to comply.
5. The people of Alaska have an interest in developing the state's oil and gas resources and maximizing the economic and physical recovery of those resources. AS 38.05.180(a).
6. Alaska's economy depends heavily on revenues related to oil and gas production and government spending resulting from those revenues. The related revenue sources include bonus payments, rentals, royalties, production taxes, income taxes, and oil and gas property taxes.
7. The potential benefits of approving this Plan outweigh the possible adverse effects, which have been minimized through imposition of mitigation measures, conditions of approval, and project specific stipulations, and thus approval of this Plan as modified is in the State's best interest.

Based upon the Plan, supporting information provided by the applicant and the Division's review, determination of applicable statutes and regulations, consultation with other agencies, relevant entities and individuals, public comment, and the above findings related to that Plan, the Division hereby approves the Plan as modified.

Sincerely,



Kim Kruse
Permitting Section Manager
Division of Oil and Gas



Date

Appeal

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 the 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. 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.

Attachments:

- Appendix A: Maps and Figure(s)
- Appendix B: Agency and Public Comments
- Appendix C: Other

ecc: DOG: Kim Kruse, Nathaniel Emery, Conor Williamson, Brian Taylor, Temple Davidson,
Jodi Delgado-Plikat, Heather Heusser, Jeanne Frazier,
DMLW: Alexander Wait, Jeanne Proulx, Melissa Head, Matthew Willison, Kimberley
Maher, Henry Brooks
ADFG: Jack Winters
ADEC: Sharon Morgan, Fathima Siddeek, Gerry Brown
North Slope Borough: Thomas Brower III, John Adams, Gordon Brower, Bart Ahsogeak,
Rhoda Ahmaogak
Other: USACE

APPENDIX B **Agency Comments**

Alaska Department of Natural Resources Division of Mining Land & Water (DMLW), March 17, 2016, Summary of Comments

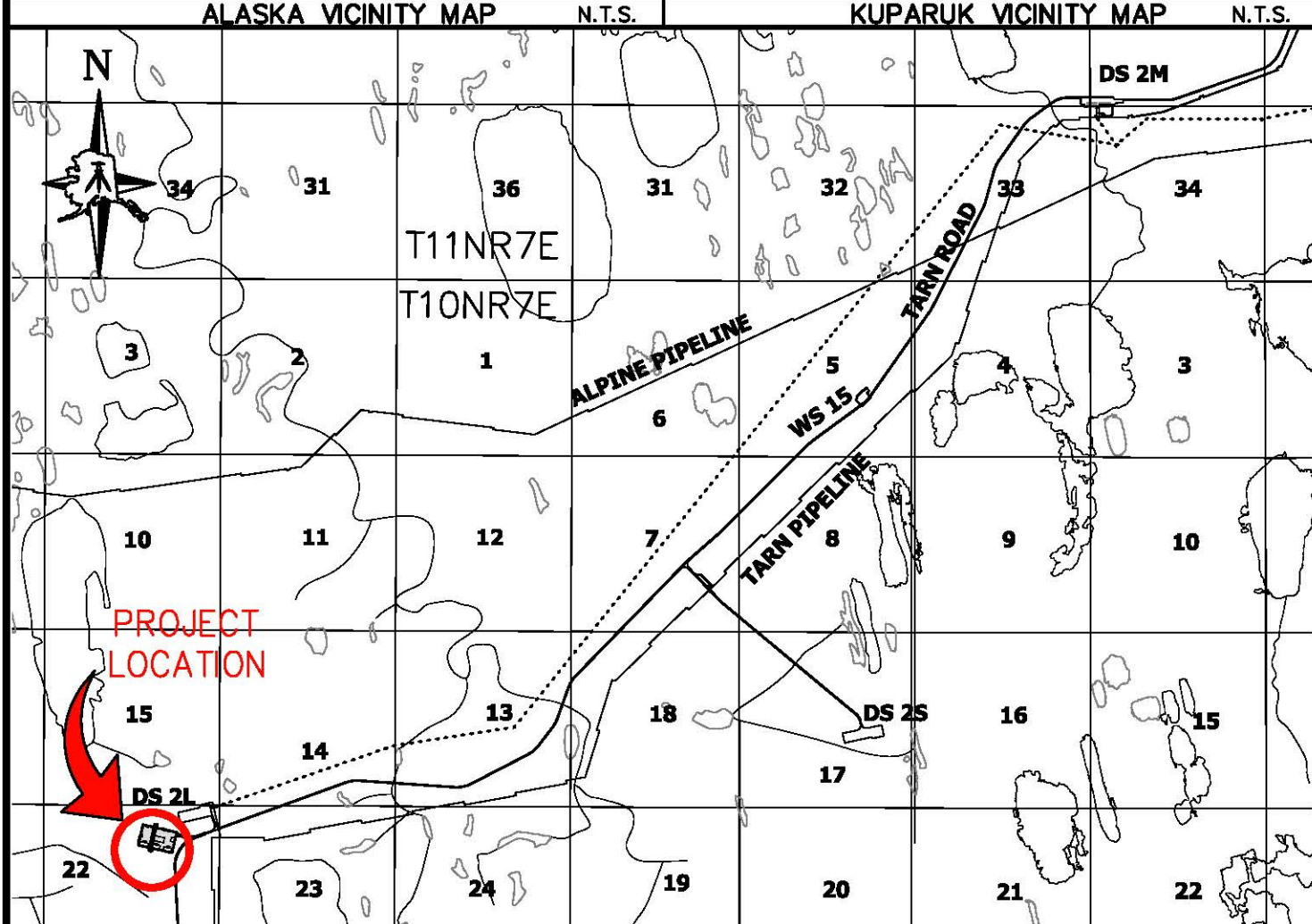
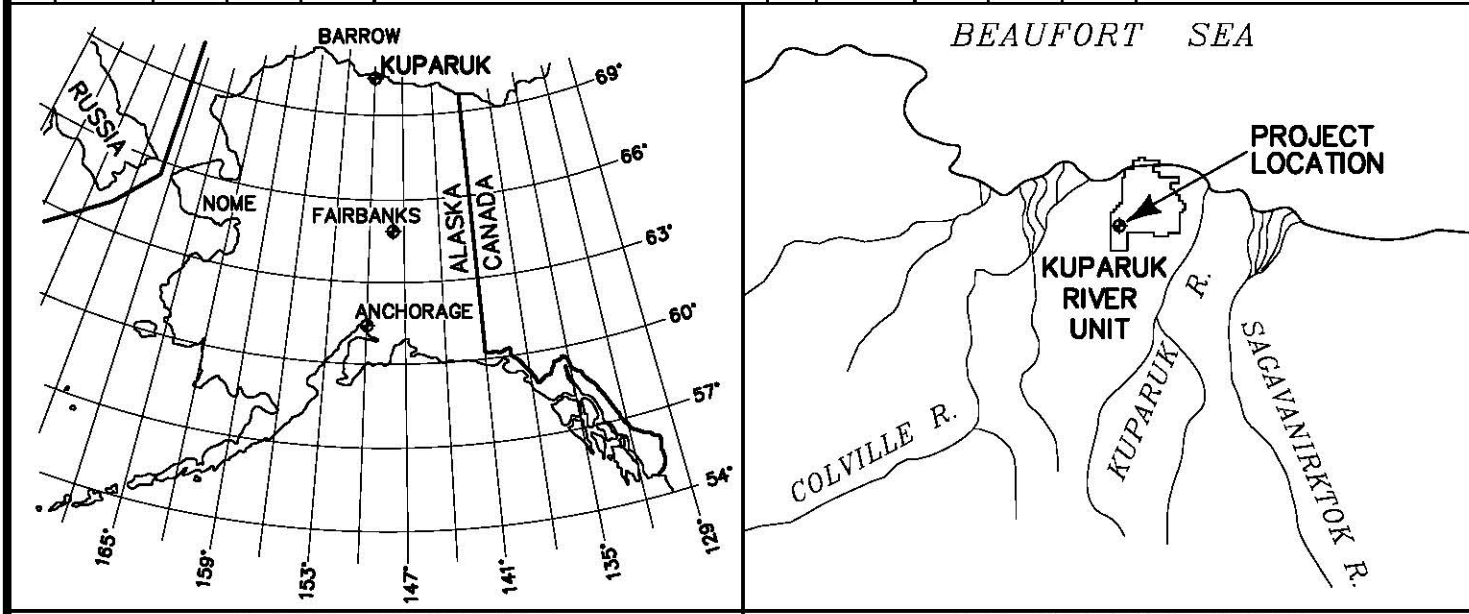
DMLW responded with concerns regarding underutilization of existing gravel pads within the KRU and supporting activities in the Colville River Unit (CRU), particularly equipment staging for annual construction of the Alpine resupply ice road.

CPAI addressed the use of each existing gravel storage pad in response to DMLW's concerns regarding underutilization comments within the KRU. CPAI indicated that each pad was being utilized and that insufficient space exists to meet current operational needs. CPAI agreed to outline the percentage of the new pad supporting CRU activities and apply to DMLW for leasing that pad space after construction of DAP at a later date. This response satisfied the Division's concerns and DMLW agreed to defer response on the matter to the Division.

Division Response:

Comments noted. Applicant has addressed agency comments.

REV	DATE	BY	CK	APP	DESCRIPTION	REV	DATE	BY	CK	APP	DESCRIPTION
1	10/05/15	LGM	MEH		UPDATE DRAWING TITLE						




THIS PROJECT IS LOCATED
IN HARRISON BAY (A-1)
QUADRANGLE

VICINITY MAP
1" = 1 MILE



**LOUNSBURY
& ASSOCIATES, INC.**
SURVEYORS ENGINEERS PLANNERS

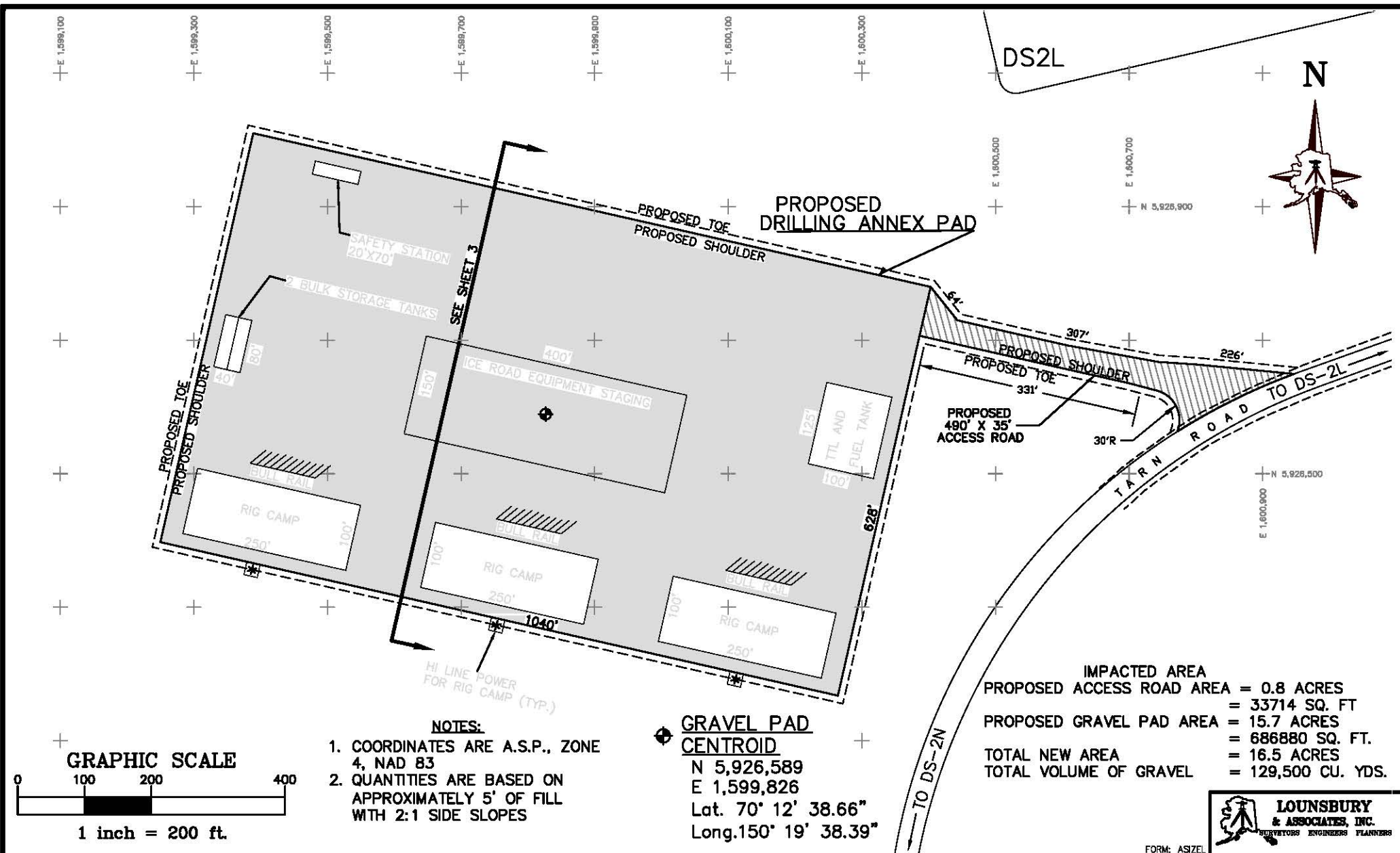


Alaska, Inc.

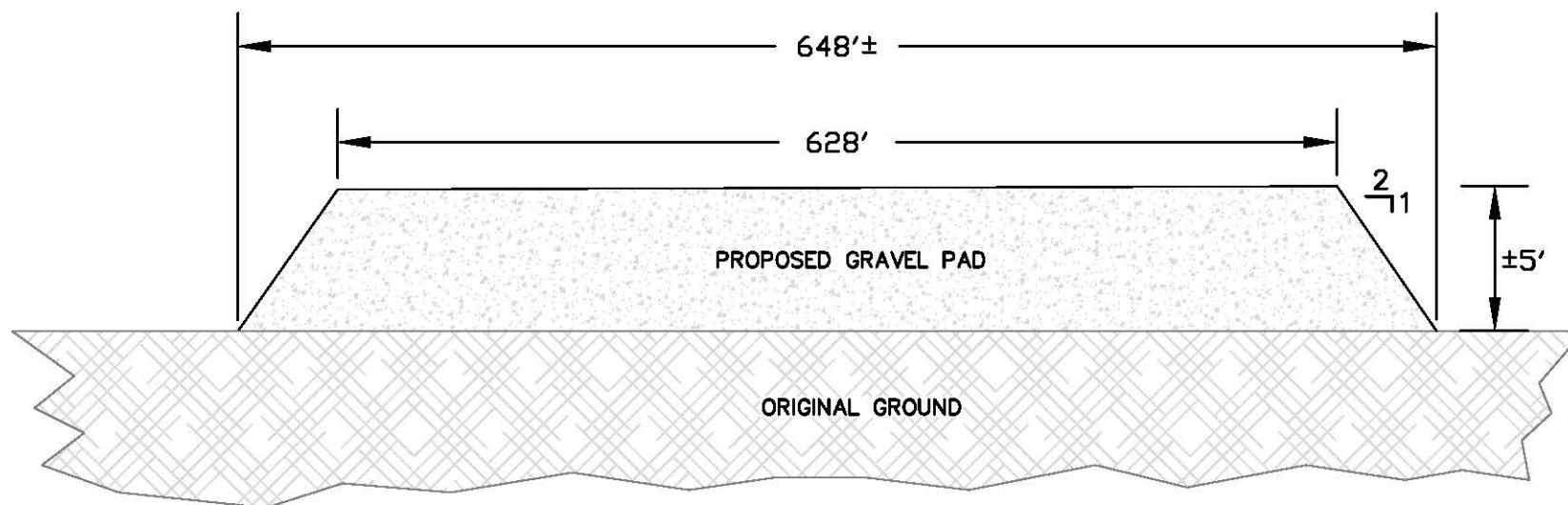
AREA: 2L MODULE: XXXX UNIT: D2

KUPARUK FIELD
DRILLING ANNEX PAD
PERMIT EXHIBIT

CADD FILE NO. LK660D153	10/02/2015	DRAWING NO. NSK 6.60-d153	PART: 1 OF 3	REV: 1
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				ConocoPhillips Alaska, Inc.		AREA: 2L	MODULE: XXXX	UNIT: D2
				APPROVAL: —		KUPARUK FIELD DRILLING ANNEX PAD		
				DATE: 10/02/2015 LK660D153				
1	10/05/15	UPDATE DRAWING TITLE	LGM/MEH	BY	CHK	DRAWING NO.	PART: 2 of 3	REV: 1
REV. NO.	CUST. APP.	DATE	REVISIONS	BY	CHK	NSK 6.60-d153		



(PROPOSED GRAVEL PAD CROSS-SECTION DETAIL)

NTS



FORM: ASIZEL

								ConocoPhillips Alaska, Inc.		AREA: 2L MODULE: XXXX UNIT: D2	
								APPROVAL: —		KURPARUK FIELD DRILLING ANNEX PAD	
								DATE: 10/02/2015 LK660D153			
1	10/05/15	UPDATE DRAWING TITLE		LGM	MEH			DRAWING NO.		PART:	REV:
REV. NO.	CUST. APP.	DATE	REVISIONS	BY	CHK	JOB ENGR	PROJ ENGR	NSK 6.60-d153		3 of 3	1