

**DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS**

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

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

July 14, 2003

R. F. Buckley, Chairman
PTU Owners Committee
ExxonMobil Production Company
PO BOX 4876
Houston, TX 77210-4876

RE: Point Thomson Unit
Twentieth Plan of Development Approved
Unit Contraction Election Deadline Extended

Dear Mr. Buckley,

On July 31, 2001, the Division of Oil and Gas (Division) approved an application for expansion and contraction of the Point Thomson Unit (PTU), which included a number of commitments that constitute elements of a long-term plan of development for the PTU (Unit Expansion Approval). On July 2, 2003, ExxonMobil Corporation (ExxonMobil), the PTU operator, submitted the proposed PTU Twentieth Plan of Development (20th POD) for the period October 1, 2003 through September 30, 2004.

Work Commitment Area Dropped -- Under the terms of the Unit Expansion Approval, the PTU Owners committed to select a location and contract a drilling rig by September 30, 2002, to deepen the Red Dog exploration well or drill a delineation well in the Work Commitment Area during the 2002 – 2003 winter season. However, on August 12, 2002, ExxonMobil submitted the proposed Nineteenth Plan of Development (19th POD), which stated “As this well will not be drilled, the Owners plan to pay the Drilling Extension Charge of \$940,000 to the State of Alaska, and relinquish the western Red Dog leases as prescribed in the Unit Expansion Approval.” On January 29, 2003, the Division approved a proposed amendment to the Unit Expansion Approval, which transferred ADL 389728 from the Work Commitment Area to Expansion Area 1. ADL 377012 and ADL 377013 contracted out of the PTU and the working interest owners relinquished the leased acreage effective January 21, 2003. The Division received a \$940,000 check from ExxonMobil on June 24, 2003, as payment of the Drilling Extension Charge.

Contraction Election Deadline Extended -- On April 24, 2003, ExxonMobil requested a two-year extension of the next three deadlines in the Unit Expansion Approval. Those three deadlines were: 1) one-time election to contract the unit by June 15, 2003, 2) commence development drilling by June 15, 2006, and 3) complete seven development wells by June 15,

2008. On May 15, 2003, the Division approved a one-month extension of the contraction election deadline, but felt it was premature to consider extending the other two commitment deadlines. On June 20, 2003, the PTU Owners requested an additional six-month extension of the contraction election deadline. The Division amends the Unit Expansion Approval to extend the unit contraction election deadline until January 15, 2004, as follows:

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

Twentieth Plan of Development Approved -- The 20th POD provides an update of activities performed during the one-year term of the 19th POD and those planned for the next year. The PTU owners are proceeding on two parallel paths to meet the next commitments in the Unit Expansion Approval; commence development drilling by June 15, 2006, and complete seven development wells by June 15, 2008. ExxonMobil is acquiring the necessary permits and approvals for the PTU gas cycling project, and evaluating the Thomson reservoir structure and reserve estimates simultaneously. Estimating reasonable costs through the permitting process and reserves through the technical evaluation will enable the PTU owners to determine whether the PTU gas cycling option is a commercially viable project. When they determine that the project is commercially viable, they will have the necessary permits to proceed with development.

ExxonMobil and the major PTU owners made significant progress toward accomplishing the goals set out in the 19th POD, and plans to continue working on all aspects during the 20th POD. In 2002, the Environmental Protection Agency (EPA) selected CH2M Hill to prepare an Environmental Impact Statement (EIS) for the PTU gas cycling project. EPA plans to issue the draft EIS in February 2004, and will incorporate comments that they receive in the final EIS. In September 2002, ExxonMobil executed a Memorandum of Understanding with the State of Alaska to facilitate the permitting process, and will continue to pursue State permits during the 20th POD. ExxonMobil proceeded with Front End Engineering Design (FEED) of the surface facilities during the 19th POD, which EPA will incorporate in the EIS process. During the 20th

POD, ExxonMobil will continue with FEED to optimize facility design and support the permitting activities. The PTU owners completed prestack depth migration of the PTU seismic data, generated new maps of the top and base Thomson Sand, and presented the current stratigraphic and structural interpretation to Division staff on June 24, 2003. During the term of the 20th POD, they will complete technical evaluations of the reservoir quality, fault seal, and structural framework; and analyze the Pre-Mississippian section that underlies the Thomson sand. Proceeding with the permitting process and the technical evaluation will progress the project toward the next phase of funding approval.

Over twenty companies or individuals hold working interest ownership in the PTU. Four companies: ExxonMobil, BP Exploration (Alaska) Inc., Chevron U.S.A. Inc., and ConocoPhillips Alaska, Inc., hold over 98% of the PTU with various interests in individual leases. ExxonMobil, BP, and Chevron agreed to align their interests across the unit effective August 31, 2000, and subsequently ConocoPhillips committed to the alignment agreement. However, the alignment agreement is not effective until the Division approves cross-assignment applications. In accordance with 11 AAC 82.615(a)(1), the PTU working interest owners must submit assignment applications to the Division for approval within 90 days after signing a transfer of ownership. The deadline for the major PTU owners to file assignment applications is long past. The Division requests a written explanation for the delay in completing the assignments and the date when you expect to submit them, which in no case should be more than 90 days from issuance of this decision.

The major PTU owners agreed on many of the terms of the PTU Unit Operating Agreement, but need to resolve several key provisions before executing the final agreement and obtaining approval by the remaining PTU working interest owners.

The Division considered the criteria in 11 AAC 83.303 and finds that the 20th POD protects the public interest. I approve the 20th POD for the period October 1, 2003 through September 30, 2004. Under 11 AAC 83.343 the Twenty-first Plan of Development for the PTU is due 90 days before the 20th POD expires, on or before, July 2, 2004. This decision only approves the general unit plan of development and does not constitute approval of any permits that may be required under 11 AAC 83.346, the Alaska Coastal Management Program, or by any other law or governmental entity.

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 Thomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1 (907) 269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. 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

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AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,

Original Signed by Bonnie Robson, Deputy Director

Mark D. Myers
Director

cc: Richard LeFebvre, Deputy Commissioner DNR
James Cowan, Resource Evaluation
Richard Todd, Department of Law